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EARNINGS

GE Slashes Payout, Discloses Inquiry; Shares Plummet

Embattled conglomerate books $22.8 billion quarterly loss on accounting charge now subject of DOJ probe

GE has struggled over the past year with declining sales and profits that have forced the conglomerate to break itself apart and bring in an outsider CEO. **PHOTO:** AKOS STILLER/BLOOMBERG NEWS

By Thomas Gryta

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General Electric Co.'s GE **-8.78%** ▼ troubles came into sharper relief on Tuesday—and the need to salvage the conglomerate took on new urgency—after it revealed federal prosecutors had opened a criminal accounting probe and GE slashed its dividend to a token amount.

By cutting its dividend for the second time in a year, the once-mighty manufacturer can hold on to the little cash it is currently generating. That will buy some breathing room while Larry Culp, its first outsider chief executive officer, restructures the company and finishes breaking it apart. Meanwhile, executives warned GE would significantly miss its profit targets for the year, without giving a new forecast.

The latest dose of bad news spooked GE's already battered investors. Shares tumbled 8.8% on Tuesday to $10.18, reaching their lowest levels since the depths of the financial crisis. The stock has fallen about 50% in the last year, and GE was removed from the Dow Jones Industrial Average in June.

Jack Ennis, a retired schoolteacher in New Jersey, said he had sold on Tuesday the roughly 8,000 GE shares he had held for decades. “I made the decision upon learning this morning that the dividend was slashed from 12 cents to a token penny per share,” he said. “I can’t afford to commit a sum of money like that not earning a dividend.”

In addition to cutting the dividend, GE executives revealed that the Justice Department is looking into the company’s recent accounting, alongside an investigation already under way at the Securities and Exchange Commission. GE also said the SEC had expanded the scope of its inquiry.

Both the Justice Department and SEC are investigating a $22 billion charge the company booked in the third quarter tied to acquisitions in GE’s power unit, as well as a $6 billion charge in the first quarter for a shortfall in insurance reserves, GE’s finance chief Jamie Miller told investors on a conference call Tuesday.

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GE reported a net loss of $22.8 billion in the third quarter because of the $22 billion charge, highlighting the depths of its problems. Mr. Culp took over on Oct. 1 after GE ousted John Flannery as CEO and warned it would miss its cash-flow and earnings goals for the year.

“It is tough for an industrial company to play offense to compete and win with a balance sheet in the condition that ours is in,” Mr. Culp said in an interview Tuesday. “That is a long-term issue that we need to address—and we are going to address it in every way possible with a real sense of urgency.”

Mr. Culp declined to discuss the regulatory probes but said he had spent his time as a GE director since April and first month as CEO conducting his own due diligence. “I don’t think any CEO could ever, should ever, say there is nothing in the woodpile,” he said. “I think we’ve got our arms around a good bit of the company.”

Investors had braced for another reduction in the company’s once-reliable dividend. The new quarterly dividend of a penny a share is down from 12 cents. The move will save GE generous dividend payers.

On Tuesday's conference call, Mr. Culp said the overall strategy set in June under his predecessor "is the right plan going forward" and GE had no plans to sell shares to raise additional capital. However, he said dramatic changes were needed in the power business, which Mr. Culp said he plans to separate into two units. "Everything is on the table at power," he said.

Revenue in the power unit in the latest quarter tumbled 33% from a year earlier to $5.74 billion, and the unit swung to an operating loss. Overall, GE said revenue dropped 4% to $29.57 billion in the third quarter, as growth in its aviation and energy units offset some of power's decline.

Excluding charges, GE reported earnings of 14 cents a share. On that basis, Wall Street was expecting adjusted earnings of 20 cents a share on revenue of $29.92 billion, according to Thomson Reuters.

When it switched CEOs earlier this month, GE warned it would take an accounting charge of up to $23 billion for previous acquisitions in the power business, which makes turbines that generate electricity at power plants. The century-old business has suffered from deep losses amid a global drop in demand for power-generating equipment.

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The power division, which had been the company's biggest in terms of revenue, has been at the center of GE's financial and operational woes. The unit has cut thousands of jobs to adjust to the market, but GE has said it would take years to get the division back on track.

GE said Tuesday it would cut additional costs by consolidating corporate functions at the power unit.

Earlier this month, GE had warned it would miss its forecast for adjusted 2018 earnings of around $1 a share. Before Tuesday's report, analysts had lowered their adjusted per-share earnings targets, pushing the consensus down to 88 cents, according to a Thomson Reuters. Up until last fall, GE had targeted 2018 adjusted earnings of $2 a share.

dried up. In the first nine months of the year, the industrial business had a negative $333 million in adjusted cash flow. Previously, GE had projected about $6 billion in cash flow for the year, compared with $9.7 billion last year and $11.6 billion in 2016.

Mr. Culp said the company would provide an update to investors in early 2019.

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GE plans to split the power-generating division into two units, one for its natural gas turbines and related services, and another that includes steam and nuclear power, along with equipment and services for distributing electricity.

Last month, GE disclosed a flaw in its newest power-plant turbines after a key part failed, forcing utility customer Exelon Corp. to shut down two Texas plants. GE, which has been making repairs to the fleet of turbines, booked $240 million in reserves related to the problem in the third quarter.

The company's aviation business, which produces jet engines, remains the brightest spot amid healthy demand for its latest engine model from airplane makers like Boeing Co. and Airbus. GE said the unit's third-quarter revenue jumped 12% to $7.4 billion while profit rose 25%. Equipment orders surged 35% from a year earlier.

GE said it remains focused on "shrinking and deleveraging GE Capital, the company's financial-services arm. The division has been pared back significantly in recent years, but remains a source of problems, including the need to boost reserves on its insurance portfolio by $15 billion.

desired capital levels or to execute strategic options around its portfolio.

She said the company is also performing the annual re-evaluation of its insurance reserves in the fourth quarter, which could lead to an increase in the cash it sets aside.

The Boston-based company has already announced plans to sell its transportation business, which makes locomotives, and spin off its health-care unit, which makes MRI machines and hospital equipment. It also has said it plans to reduce its 63% stake in Baker Hughes , an oil-field services provider.

In the third quarter, revenue and profit at the health-care and transportation units were roughly flat with year-earlier levels.

GE said Tuesday it expects to complete the sale of its transportation business to Wabtec Corp. in early 2019 but could complete the sale sooner.

The company reiterated its plan to exit its stake in Baker Hughes, saying it would do so “in an orderly fashion over several years”

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