INVESTOR'S EDGE

GE's spinoffs appear to have bright futures

Stock prices are up at two of the three new companies.

"Change before you have to"
— Jack Welch, GE CEO 1981 - 2001

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Guest columnist

General Electric, founded by Thomas Edison in 1892, was once the most iconic business in American history. An original member of the blue-chip Dow Jones Industrial Average, GE's stock reached a $600 billion market cap in 2000, 24 long years ago.

It would never reach that level again.

Poor management, SEC accounting probes, and the Great Recession tanked GE's stock price. Despite 15 + years of multiple attempts at restructuring, selling off divisions, and even slashing its dividend in half, GE continued to flounder. The stock was unceremoniously booted from the Dow Jones Industrial Average in 2018.

After more than 125 years in business, the old General Electric needed to change — and fast. In November 2021, GE announced plans to split into three public companies: medical devices (GE HealthCare), aviation (GE Aerospace), and power generation (GE Verona). The company broke into two in 2022 and completed its break into three separate companies on April 2.

Many readers of this column have been asking my opinion on these three interesting companies. Let's take a look under the hood.

GE HEALTHCARE (SYMBOL: GEHC)

GEHC is a global manufacturer and distributor of medical devices, pharmaceutical diagnostics, and medical technologies ("medtech"). GEHC was the first company to spin off from GE and began trading publicly in December 2022. Since then, the stock has grown an impressive 52% — well ahead of the S&P 500's 30% gain.

GEHC has seen significant margin expansion and cost efficiencies from operating as a standalone business and has benefited from post-COVID pent up demand for medical procedures.

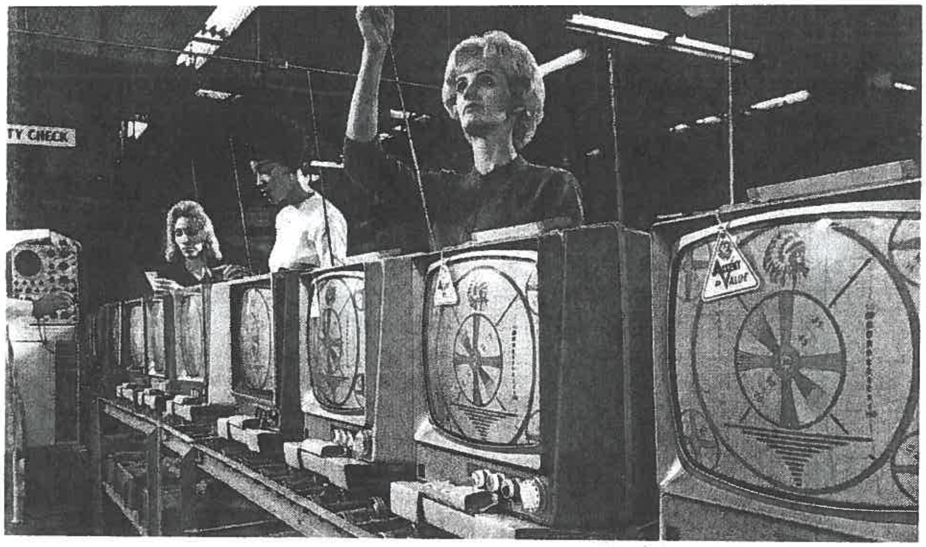
In its latest earnings call, the company announced the launch of new medical imaging and diagnostic tools that will incorporate artificial intelligence to help medical professionals "deliver precise, connected, and efficient care across diverse diseases." These include taking a leading role in developing advanced solutions for Alzheimer's, breast cancer, cardiac imaging, and radiation therapy.

GE Healthcare will be a long-term winner, and I'm comfortable recommending it.

GE AEROSPACE (SYMBOL: GE)

GE Aerospace is a leading provider of jet and turboprop engines as well as integrated aviation systems for both commercial and military aircraft. In fact, 75% of all new single-aisle jets made by both Boeing and Airbus have a GE engine inside them.

The investment thesis for GE Aerospace centers around the massive upgrade and replacement cycle that is



General Electric at one time had a major presence in Central New York. Television receivers were produced at Electronics Park in Liverpool. *Post-Standard file photo*

sweeping the commercial aircraft industry and militaries. The aircraft engine business has very high barriers to entry, significant pricing power, and recurring, consistent revenue streams. In the coming years, GE will be at the forefront of the industry's growth trajectory and will be critical to innovating the next generation of aviation engines and systems.

GE Aerospace's stock has soared more than 60% year to date as investors are clearly bullish on the company's position in the secular trends mentioned above. The company recently raised its dividend by 250% and projected strong confidence in its latest earnings call.

I believe GE Aerospace is the crown jewel in this breakup, and it is on my watchlist to buy on any 5-10% pullback.

GE VERONA (SYMBOL: GEV)

GE Verona now stands alone as one of the largest energy and power source companies. In fact, approximately 30% of the world's electricity is generated using GE Verona's turbines, across more than 100 countries.

The company has three primary segments: gas power, renewable wind power, and electrical grid solutions — all united under one mission to "electrify and decarbonize the planet."

The current GE Verona investment thesis is centered around the company's leading position in energy and power generation infrastructure where it stands to benefit from the global movement towards decarbonization and renewable energy. It has been projected that worldwide electricity capacity will need to increase by 100% in the coming years to meet both consumer demand and the needs of countries who have taken net zero carbon emission commitments.

This should put GE Verona in a strong position to enhance its growth and cement its position as the leader in worldwide energy and power generation.

While the fundamental outlook for GE Verona is good, the company has yet to turn a profit and will face headwinds in a complex and changing industry. So, if you own it, hang onto it. If not, I'd pass for now.

I've made a lot of money in my career by buying spinoffs. I believe all three spinoffs have the potential to generate solid gains over the long term.

Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at jburns@jwburns.com