GE to raise $15 billion, Buffett gets preferred stake

REUTERS

By Scott Malone
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General Electric Co plans to raise $15 billion through stock sales -- including $3 billion from Warren Buffett -- to improve liquidity and give it the option of more acquisitions at a time of intense market turmoil, the U.S. conglomerate said on Wednesday.

The news helped to erase some of the day's slide in GE shares, which fell more than 9 percent earlier, but was not enough to push them into positive territory. Investors remained worried about the troubles at GE's vast finance arm -- which has businesses ranging from loans to mid-sized business to investing in real estate.

It was the second big strategic investment by Buffett's Berkshire Hathaway Inc in the battered finance sector in as many weeks. Last week Berkshire said it would invest $5 billion in Wall Street's Goldman Sachs Group Inc.

"GE is the symbol of American business to the world," Buffett, one of America's most famous investors, said in a statement. "I am confident that GE will continue to be successful in the years to come."

'INSURANCE POLICY'

The move was a sign that GE is looking to shore up its finances as the U.S. faces what could be its worst financial storm since the Great Depression, investors said. The U.S. Senate was expected to vote later on Wednesday on a $700 billion bailout package for Wall Street.

"It's an insurance policy in case things get worse," said Wayne Titche, co-manager of the AHA Diversified Equity Fund, part of AMBS Investments, which counts GE among its holdings. "It just shows how jittery the market is that a firm triple-A rated (company) like General Electric feels that they need to raise that extra cushion. But in today's market, better safe than sorry."

GE shares have lost about 34 percent of their value this year, a steeper slide than the Dow Jones industrial average or the broad Standard & Poor's 500 index.

"This means that we are near the trough," said Campbell Harvey, professor of finance at Duke University, in Durham, North Carolina. "Some people will take it as a negative sign that GE is in trouble. I take it as a time when a very smart investor decides 'I am going to buy low, and this is it.'"

'EXTREMELY ATTRACTIVE PRICES'

Berkshire is buying $3 billion of preferred GE shares that carry a 10 percent dividend, and also has the option to buy another $3 billion of GE common stock at $22.25 per share -- slightly above the 52-week low of $22.19 it hit last month.

Fairfield, Connecticut-based GE, which with a $245 billion market capitalization is the second most valuable publicly traded U.S. company, said it plans to price the $12 billion common stock offer before the market open on Thursday.

"What Buffett has been waiting for for years is finally happening: A period of sufficient market distress where he can negotiate terrific financial terms for Berkshire," said James Armstrong, president and portfolio manager at Henry H. Armstrong Associates in Pittsburgh, which holds a stake in Berkshire Hathaway. "The reason he's buying so much right now is he's getting extremely attractive prices. He has been waiting for this for 10 years."

ENVIRONMENT 'VOLATILE'

GE confirmed its forecast of last week that troubles at GE Capital, which accounts for more than half its profit, would offset strong growth in sales of high-tech products like jet engines and electricity-generating turbines, leaving 2008 profit down as much as 12 percent.

"The economic environment remains volatile," said GE Chairman and Chief Executive Jeff Immelt in a statement. "However, the company's performance remains on track with the earnings guidance we provided last week for 2008."

The sale gives GE more flexibility and would allow it to "play offense" in making acquisitions, Immelt said.

GE shares had fallen sharply earlier in the day after a Deutsche Bank analyst said he expected the conglomerate's profit to be down again in 2009.

The cost to insure $10 million of GE Capital's debt with credit-default swaps over a five-year period eased after the news, which had spiked as high as $740,000 earlier in the day, but eased to $540,000 after the Buffett news. That was down from $550,000 on Tuesday, according to Phoenix Partners Group.

The shares, which were down $1.21 at $24.29 on the New York Stock Exchange, remain above the 52-week low of $22.19 reached on September 18, but well below the high of $42.15 reached on October 2.

(Additional reporting by Svea Herbst-Bayliss, Jim Finkle and Muralikumar Anantharaman in Boston; James B. Kelleher in Chicago; Jonathan Stempel, Dena Aubin, Paritosh Bansal, Jennifer Ablan, Juan Lagorio and Ellis Mnyandu in New York; Editing by Bernard Orr)