

What Caused General Electric's 3rd Quarter \$22.8 Billion Loss?

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General Electric Company (GE) released its third quarter results on October 30, showing a loss of \$22.8 billion where \$21 billion was attributed to a goodwill write-down of its power division. The company plans to [restructure its power unit](#) to help recover.

Companies are required to test their goodwill for impairment at least annually. GE tests its goodwill for impairment each year at the end of the third quarter and uses data as of July 1 of that year. According to its [10Q](#), fair values for each of its reporting units exceeded the carrying values except for the Power Generation and Grid Solutions reporting units within their power segment. Most goodwill in the power segment was recognized because of the [Alstom acquisition](#), which contributed an astonishing \$15.8 billion to goodwill.

GE closed the Alstom acquisition in November 2015 as it was eager to enhance its position as the most competitive infrastructure company with a financial service business. As part of its closing conditions, GE made [promises](#) to the French Government, one of which was to add 1,000 jobs by the end of 2018.

GE unwittingly touted to its investors that the deal was struck at an opportune moment. It entered the natural gas power market only to face increased competition from renewable energy and cheaper oil and gas prices. GE made these matters worse when it ramped up production in an already waning market, which created a backlog of inventory. This misjudgment severely affected cash flows, and GE was forced to [lay off 12,000 people](#) from its power business in December 2017, none of whom were in France due to the deal GE struck with the French Government.

The combination of a challenging market and poor management already impaired the expected returns from the Alstom deal. The commitment with the French Government further exacerbated this since GE could not alter its cost structure to mitigate its expected loss of income. These conditions resulted in the downward revision of future projected earnings on the Alstom deal, which was the primary cause of the \$21 billion Goodwill write-down of GE's power division.

