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GE Plans Credit-Card IPO as Plastic Gets Popular

New Company to Be Called Synchrony Financial

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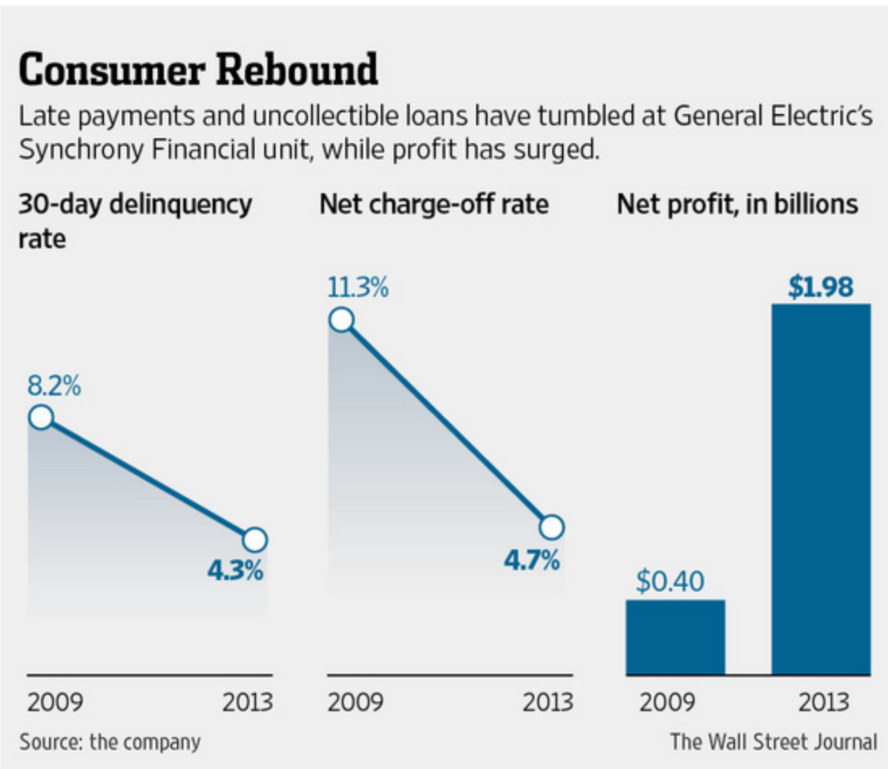

Lending to consumers is back in fashion on Wall Street.

General Electric Co. GE +0.87% said Thursday it will sell part of its credit-card unit in an initial public offering. The move by the Fairfield, Conn., company highlights the renewed investor enthusiasm for the card business after some issuers were hit hard by defaults following the 2008 financial crisis.

The GE unit, which will be called Synchrony Financial, is the largest U.S. issuer of credit cards in the names of retailers and other partners. The company's biggest accounts include the retail giants J.C. Penney Co. JCP -3.45% , Wal-Mart Stores Inc. WMT +0.12% and Lowe's Inc.

Synchrony could have a value of up to $20 billion, analysts from Bernstein Research

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said last year. GE declined to comment on valuation.

As the economy has improved, so has the performance of these so-called private-label credit cards. Borrowers have gotten a stronger grip on their personal finances and generally become more diligent about paying their credit-card bills on time each month. "In the current market, private-label credit cards are enjoying a better profile… than they have in decades," said David Robertson, publisher of the Nilson Report, a payments-industry newsletter.

More customers have been keeping up with their bills, a sign that the economy is getting better. Customers more than 30 days late on their payments fell to 4.3% at the end of last year from 8.2% in 2009, GE said in its filing Thursday. Loans written off as uncollectable tumbled to 4.7% from 11.3% over the same span.

Synchrony financed $93.9 billion in sales last year, with net earnings of $2 billion, down from $2.1 billion in 2012, according to the filing. GE is splitting off the unit in a bid to reduce its dependence on financial-business income.

Consumer lending "is certainly not GE's core business," said Gary Bradshaw, portfolio manager with Dallas-based Hodges Funds, which manages $1.8 billion. "Hopefully they'll be able to redeploy these assets and reaccelerate their earnings."

Gains at the unit underscore the rise of store cards. Outstanding balances on U.S. private-label store credit cards stood at $96.5 billion in 2012, up 4.7% from a year earlier, according to the Nilson Report. At the same time, outstanding balances for general-purpose credit cards were $712.3 billion, down 0.2% from a year earlier.

The improved performance has reignited interest across the credit-card business. Shares in Discover Financial Services, DFS -0.87% a major issuer of its own name-brand credit cards, are up more than 80% in the past two years. Auto lender Santander Consumer USA Holdings Inc. SC +2.91% increased the size of its IPO earlier this year, though its shares recently fell below their offering price.

Private-label credit cards typically don't bear the logos of card networks such as Visa Inc. V +1.18% and MasterCard Inc. MA +1.40% and must be used at the specific merchants offering the cards. The programs are attractive to retailers because the cards typically cost less for them to accept than Visa- or MasterCard-branded cards and entail incentive payments and other perks to the retailer for meeting certain transaction thresholds, according to analysts.

Citigroup Inc., the second-largest issuer of store cards, decided to retain its massive partnership-card business in 2011 after having previously deemed it a noncore business and tried to sell the unit.

Lured by the ability to secure long-term relationships with retailers, Capital One Financial Corp. COF -0.38% made a big bet on the private-label card business by acquiring the U.S. card unit of HSBC Holdings HSBA.LN +0.15% PLC in 2012, making it the third-largest store-card issuer.

The contracts that banks have with retailers for private-label programs often last years, making it difficult for competing lenders to wrestle away business from their competitors.

GE's plan to spin off the business could ratchet up competition for other lenders in the industry, but could present challenges for the unit once it is on its own, analysts said.

By being a stand-alone company, Synchrony may be more aggressive about going after new business to demonstrate growth to investors. In addition, the fact that GE has wanted to shrink its overall financing business may have constrained the unit's ability to grow.

The decision to split off the card business underscores the dilemma facing GE Chief

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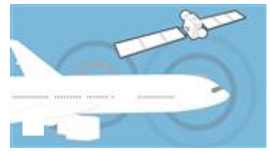

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Executive Jeffrey Immelt: Investors don't like GE's heavy exposure to banking, but finance still brings in nearly half of the company's profit. For now, GE is splitting the difference by carving out the retail-finance business and refocusing GE Capital, GE's financial wing, on loans to midsize companies.

Shrinking GE's dependence on finance is key to Mr. Immelt's efforts to raise GE's share price, which has been stubbornly below $30 since the recession. GE shares fell 42 cents Thursday to close at $25.34.

The planned IPO has implications for other consumer-finance businesses, such as OneMain, a lender owned by Citigroup. Deals such as Synchrony and Santander's consumers business "indicate that an exit for OneMain is becoming more viable," said Eric Wasserstrom, analyst with SunTrust Robinson Humphrey.

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