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# EDITED TRANSCRIPT

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**PRESENTATION**

**Andrew Burris Obin** *BofA Merrill Lynch, Research Division - MD*

Brief introduction. I'm Andrew Obin. I'm Bank of America Securities' multi-industrial analyst. We're very happy to have Jamie Miller here, GE's Senior VP and CFO. I think Jamie is going to give a short presentation highlighting the preview -- some details from the preview call, and then we'll go to a firechat-style (sic) [fireside-chat style] and Q&A.

And with that, I'll let Jamie start. Thank you.

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**Jamie S. Miller** *General Electric Company - Senior VP & CFO*

So I'll start with a preview of what we discussed last week. We gave our 2019 outlook on Thursday of last week. And first, before I start, the standard forward-looking statements. The presentation represents our view of the world, and as the world changes, things could change as well.

Taking a step back, I think, at this point, we are very focused on transitioning GE. We have a very strong team inside the company. This is a team that needs no convincing about the change we have to undertake and the transformation that the company is driving. And it's a team that is supported by technologies around the world that really matter to our customers. We've got aircraft engines, gas turbines, wind turbines, a really thriving set of technical products that support the health care industry. And all of those are embedded in services arrangements that are very tightly integrated to -- with our customers and really, really matter in our customers' operation.

And when you look around the world, the scale of the company, the footprint we have, the relationships we have is really unprecedented. So we've got a fantastic foundation. But if we take a step back, our challenges are really clear here. We've got too much debt at the company, and we're taking actions to tackle that very directly and very swiftly. And we've really got to turn around our Power business. And if you look at Power, it is a market that is stabilizing at 25 to 30 gigawatts. We have an opportunity there to execute much better than we have.

And with respect to Renewables, great market position, really moving through the PTC cycle in the U.S. But also something there, where we have an opportunity to really execute our delivery path on our projects better.

As we move into 2019, and I'll talk about this in a little bit, we are seeing negative free cash flow for the industrial businesses. And that's something that, as we face into some of this transition, we got several nonoperational headwinds that we'll be working our way through, and we'll see the peaking in our Power business with respect to free cash flow and its impact as well.

But here, I would tell you, our priorities are really clear. And we've been very clear that we're focused on 2 main things: really improving our financial position, strengthening the balance sheet as well as strengthening our businesses and running them better. You've seen us take portfolio actions around Wabtec. You saw us sell a portion of Baker Hughes GE in the fourth quarter. GE Capital, we're running and executing our \$25 billion asset-reduction plan. And then the BioPharma transaction we announced a couple of weeks ago. But really committed to running the company with a different leverage profile, a higher cash balance and really less reliance on short-term funding, which is something that has come down significantly over the last year, but we have more work to do over the next year.

Our businesses, I mentioned, fixing Power, but really, we've got 2 very healthy businesses in Aviation and Healthcare as well. A lot of strength there, but also continued opportunity to see those grow as well as improve operationally. And then I mentioned managing the Renewables cycle, managing our risk at GE Capital and then continued work to shrink Corporate. And I'll give you a few more details on that in a little bit.



Our financial targets, I have them laid out here. This is really around our leverage position, a less than 2.5x net debt to EBITDA at the industrial businesses, about 4x debt to equity at GE Capital. And as we go through this process, adjusted free cash flow for the industrial businesses at negative 2 to 0 this year, positive in 2020 with meaningful improvement and real acceleration beyond that. We do expect GE Capital over time to become profitable and expect that in 2021. And then corporate net cost over the next couple of years will shift down, and we expect at least \$500 million of improvement by 2020 with further in 2021. So taking action, being very thoughtful about repositioning the company right now.

I'll take a minute and just walk you through our deleveraging actions. I think this is a really important part of clearing the foundation of the company and putting us in much more solid position to play offense. I mentioned our target of less than 2.5x net debt to EBITDA. We have net debt today at the end of 2018 of about \$55 billion on the industrial side. These are 2 businesses that have separate capital structures. We do analyze them separately when it comes to leverage. And you can see, we've got about \$38 billion of sources of cash to deal with our deleveraging. And you can see the pieces here with -- including the recently announced BioPharma transaction.

We've got known actions we'll take over the next 18 months, paying down the GE, GE Capital intercompany loans, reducing our commercial paper. We've got about \$1 billion of debt maturities on the industrial side in 2020. And we will take additional action to move our net debt down below \$30 billion. That's an incremental more than \$9 billion of net debt reduction. And we're assessing different deleveraging actions in connection with that, debt tenders, pension funding and a few other things, a long -- a range of criteria. And as we make decisions on that as we go through this year, we will publicly talk about that. But significant sources, transactions lined up and actions to take.

On the GE Capital side, we ended 2018 with \$65.5 billion of net debt -- of debt. We are targeting less than 4x debt-to-equity ratio. You can see here our sources of cash with our continued asset-reduction plans, the repayment of that GE company -- intercompany loan, a \$4 billion of parent support in 2019, and then we ended the year with cash on hand of \$15 billion. So ample sources here to fund and repay our long-term debt maturities of \$25 billion in '19 and in '20. We expect to issue debt in 2021. We have no plans for commercial paper usage in GE Capital. And as you know, in 2019, we expect some additional cash uses here, both the payment of our WMC FIRREA settlement as well as the insurance contribution, which we made a few weeks ago of just under \$2 billion. And we planned, in 2020, with more than \$6 billion of liquidity and really moving GE Capital to a more normal steady state at that point.

So with respect to 2019, you can see here the financial metrics on the left-hand side of the page with revenues, margins, free cash flows. The real underpinnings of this get to a focus on Power execution and a return of Power to profitability. We've had project execution issues in Power. We've implemented a new underwriting framework in Power. All of that coupled with cost-out, will drive significant shifting there. Aviation and Healthcare, as I mentioned, continued to see a nice strength. Renewables will be impacted in 2019 by the reversal of the progress cycle we saw with respect to the U.S. PTC market. Renewables from an earnings perspective will also be impacted by the consolidation of the remaining portion of the Alstom JVs and the Chinese tariffs. And we've got a number of nonoperational cash headwinds, which I'll describe in a little bit more detail in a minute.

But overall, several variables to watch here. I mentioned Power and Renewables project performance, progress levelization. We also have a couple of other elements. We're marking to market our Wabtec investment at this point. When we deconsolidate Baker Hughes GE, we will take a mark on that investment, which is TBD at this point. You can see in the walk to GAAP here, we're sharing restructuring as well as the nonoperational benefit costs that are not in our adjusted EPS. But as you walk to GAAP, those are the 2 main components. And then we've got some timing things we'll monitor throughout the year, both BioPharma, GE Capital and then restructuring. We do expect first quarter to be our weakest quarter. But then getting past 2019, significant improvement in free cash flow, positive in 2020 and then accelerating as we get beyond that.

With respect to Corporate, we are running the company differently. And one of the things we've done over the last 6 to 9 months is really push down ownership and responsibility and accountability down into our businesses. We had, had a number of different elements managed at the Corporate level, a lot of shared services, we managed IT centrally. We are pushing all of that down and back into our businesses' hands. Our view is that, if they own it, they can have a much more direct impact, not only on the strategy, but on the cost to achieve that. And we've taken significant action already this year. If you look at Corporate costs, you'll see in 2019 to be about flat to up

slightly compared to 2018, with acceleration beyond that, moving down into 2020, as I mentioned before, and into 2021.

And this is just a walk of our industrial free cash flow. Just to give you a sense of some of the major components here, you could see on an adjusted basis, revised for our dispositions, \$4.3 billion of free cash flow in 2018. In Power, we see it impacted by the supply chain finance transition at GE Capital as well as continued elevated restructuring and legal settlements and Alstom pension costs. In Renewables, we've got a significant swing there with the reversal of the PTC progress cycle. That's almost a \$2 billion impact in 2019. Aviation and Healthcare, flat. Some of this is driven by Healthcare separation costs that bleed into 2019. And then when we look at the last 2 elements here, we've got a couple of significant buckets, both of investments we're making as well as some inherited liabilities at Alstom that roll through '19. And we really see '19 as peaking. And then when we move into 2020, those really start to drop dramatically, but continued elevated restructuring, some GE Capital supply chain finance transition, as I mentioned. And then we have added here an element of contingency, just knowing that the biggest element of our plan right now where there's some level of uncertainty is around Power. And we wanted to make sure we've got a reality-based bottoms-up plan here, and this is what we believe that reflects.

There was a lot of interest in this page last week when we talked about it, so I thought I'd include it here just briefly. You could see free cash flow by business here as well as some of the directional shifting that we see. And again, just to call out on the Power side, Power down in 2019, significant improvement, but still negative in 2020, positive in 2021. You could see that flat to growth that I was talking about in Aviation and Healthcare. And then with respect to Transportation, moving Transportation to discontinued operations in 2019. And then in Corporate, negative \$1.2 billion in 2018, down in 2019, but then continued improvement as we see that cost reduction happen. So again, meaningful improvement in 2020. We execute on our plan. The headwinds diminished. You can see really see that step up in how cash flows work.

So taking a step back, total company. Our priorities are very clear. The team is very rallied around that. We've got to reduce our leverage. We've got to turn Power around and strengthen all of our businesses operationally. 2019, we view this as a reset year, a year of stabilization for GE with meaningful improvement later, but we're very confident in our team, our technology positions and in the global network that the company has.

So Andrew, that's just a little bit about our outlook for this year, and happy to answer any questions.

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## QUESTIONS AND ANSWERS

### **Andrew Burris Obin BofA Merrill Lynch, Research Division - MD**

So the way it's going to work -- thank you so much. So the clock is working now, so there's the (inaudible). So the way it works, you guys, feel free to submit questions using this device. They're going to come up on this iPad -- I guess it's a Samsung device. And I do have some questions for Jamie that we sort of got ahead of time. So look, just I think we have been getting questions, and the tragedy with 737 MAX, if you guys have any more visibility over the past week that you can share with us about the impact on GE and GE Aviation.

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### **Jamie S. Miller General Electric Company - Senior VP & CFO**

Yes. So first, I would just say it's really a tragedy, and our hearts go out to all the family of those involved. Having said that, there's a number of ongoing investigations. It is really too early to comment on really any of it. What I would tell you with respect to GE is, on Aviation, we have about 1,200 engines flying on the 737 MAX. With respect to our services contract, cash flows, it's really insignificant for 2019. So any movement there would be really quite small. On the GECAS side, we've got less than 30 aircraft out in our fleet under leases. For GECAS, so again, there, too early to comment in terms of how things could move. But obviously, Boeing is a huge partner of ours, and we're in the field helping them in any way we can, get the aircraft back online.

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### **Andrew Burris Obin BofA Merrill Lynch, Research Division - MD**

And in terms of shipments, those will continue because Boeing keeps pretty significant (inaudible), right?

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### **Jamie S. Miller General Electric Company - Senior VP & CFO**

Yes. Our engines are continuing to move to Boeing. And I think, for now, the aircraft shipments are on hold.

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**Andrew Burris Obin BofA Merrill Lynch, Research Division - MD**

So I guess, the second question is, Larry gave an interview last week highlighting his vision for GE as an Industrial, focusing on rotating equipment. I guess, it begs the question sort of what does it mean for Healthcare and what kind of time line, if there is a time line, is it a 3-year horizon, 5-year horizon? Can you share something?

**Jamie S. Miller General Electric Company - Senior VP & CFO**

Yes. So first, I just mentioned our BioPharma deal, which we're very excited about. I mean, this is a company that when we sell, it represents about 15% of our Healthcare division. Selling it for more than \$20 billion of cash, 7x revenue. So it's, I think, a very efficient transaction to help bring sources into the company to delever. But it also leaves with us the \$17 billion revenue Healthcare company with mid-teens operating margins. And we're really excited about the prospects of that business. Getting to -- which, by the way, does have rotating equipment as well.

**Andrew Burris Obin BofA Merrill Lynch, Research Division - MD**

(inaudible)

**Jamie S. Miller General Electric Company - Senior VP & CFO**

But looking at Healthcare, I do think that's a business, and you see this across the sector, where health care companies do tend to do better outside of an industrial environment. And so over time, that's probably what you should expect with respect to that business, but no time frame as of right now.

**Andrew Burris Obin BofA Merrill Lynch, Research Division - MD**

That's fair. Just maybe -- I am getting a couple of questions on cash flow, and I got one before. Just on Power cash flow, just jumping a little bit. So it was about negative \$3 billion last year. You're indicating it's going to deteriorate. And then I guess, in the balance, you've indicated that there's some cushion for Power cash flow as well, right? And just looking at the bars, sort of -- I can add them out to around \$5 billion. Is that a fair estimate for where Power will be in 2019, just -- as I said, just looking at the chart?

**Jamie S. Miller General Electric Company - Senior VP & CFO**

Well, we've said Power will be down. And Power in 2019 is impacted largely by some of the investment decisions we're making, so they are most impacted by the GE Capital supply chain finance transition. They continue to have elevated restructuring, and we continue to see this levelization of the volume in the business, which impacts us through lower progress collection as well as project payables outflows. When you start to get into the outer years, 2020, 2021, there are a number of very clear areas of improvement. The first is earnings, and you look at Power project execution, project selection are 2 of our biggest focus areas right now. We've got \$800 million of cost-out that we have strong visibility to over the next couple of years there. In addition, when you look at the Power services space, we see nice improvement in transactional services over the next couple of years as well -- as well. So the first step beyond 2019 is earnings improvement. Beyond that also though, the investments area I talked about, the GE Capital supply chain finance transition is finite. So that starts to step down dramatically and move. Restructuring as well is elevated in '19, moves down a bit in '20 and then really steps down to a more normalized level in 2021. And then the last bucket I would just mention with respect to Power is what we call inheritance tax. And there are a handful of things that either came to us through the Alstom acquisition or are some decisions we've made that will run off structurally over the next couple of years. So legal settlements with respect to Alstom inherited liabilities. We have some Alstom pension funding we need to do in the next couple of years. In addition, we had a long-term receivable factoring program at Power that we discontinued in the fourth quarter of '17. That's about \$1 billion left to run on the runoff of that today. So that steps down as well over the next 2 years. So if you take a step back, good visibility at Power as to how it changes, but it will be down in 2019.

**Andrew Burris Obin BofA Merrill Lynch, Research Division - MD**

And just a question in terms of thinking about the service business because it seems to be where a lot of pain has been so far. What are the milestones that we should, sort of looking from the outside, we should see to think about visibility around transactional and service and sort of paths to recovery in profitability in these businesses?

**Jamie S. Miller *General Electric Company - Senior VP & CFO***

Well, the good news on transactional is that it is largely a self-help story, a kind of back-to-basics rigor around the business. This is a business that is significant in revenue, but it's also one that, over the last 5 years, we had really lost focus on. And we have spent the last 18 months really getting back to basics around visibility on our equipment, exactly where it fits in an outage cycle, how do we work with our customers to plan, how do we make sure we've got the right underwriting and pricing frameworks in place in the field as we do it, how do we make sure that our engineers are where they need to be in the field and just managing the organization differently. And what we've seen over the last year is two good things, which is growth in orders and a significant growth in margin on those orders. What we have not seen is a growth in our contribution margin yet, which is really where the self-help piece of it comes in. Operationally, we're finding that we're not yet there on on-time delivery and execution, and I think that's a good news/bad news story. I think from a bad news perspective, it hasn't come through yet. The other side of it is, this a space where Larry and Scott are just very focused on improvement over the next year. So that's from a transactional perspective. If you pull back on the rest of Power, the new unit side, about \$3 billion in revenue. We see about 40 to 45 heavy-duty gas turbine units shipping this year. 100% of that is in backlog, which is good, and that's not been the case in prior years. When we look at the services business, we've got about \$4 billion of revenue on the contractual side with \$54 billion in backlog. So real strength, real healthy margin there. And then again, if you look at transactional and upgrades, that's really where we believe it's largely in our control, but it will take time to emerge.

**Andrew Burris Obin *BofA Merrill Lynch, Research Division - MD***

And just, the question here, just on the same things, what could normalized Power earnings or margin be, and we have several questions about it, sort of longer-term margin in Power as comparable to peers. Where do you see Power business sort of 3, 5 years out beyond sort of your forecasted time line?

**Jamie S. Miller *General Electric Company - Senior VP & CFO***

Well, we haven't actually given any specific target with respect to Power's normalized earnings. I think, clearly, it's higher than today. We do expect earnings to be positive and move to mid or high single digits. But beyond that, it's going to be an operational story. We're not planning on the market. This is all a self-help story, but could it be higher than that? I think it could be, but we're not, we're not.

**Andrew Burris Obin *BofA Merrill Lynch, Research Division - MD***

So let me just go back to -- maybe go into GE Capital, because that's another big part of the story. We've been getting a lot of questions. So you did talk about sort of getting GE Capital to profitability. So how do you address, when we took a look at it, seems you still have a bunch of sort of stranded legacy cost that have to do with the fact that this used to be a much bigger portfolio. There is still some costs associated. The assets are no longer there. The cost is still there. So how do you fix the cost structure in that business given a much smaller portfolio?

**Jamie S. Miller *General Electric Company - Senior VP & CFO***

Yes. Well, we've done a lot the last 2 or 3 years to take core costs down with SG&A and a lot of the other support costs. But when you look at the actual debt cost, the excess interest cost, that's really the place where you'll see another significant step in the next 2 years. I mentioned that we've got \$25 billion of debt maturing in '19 and in '20. So right there, we'll have a step in terms of lower interest. And then beyond that, when you get to 2021, the preferred stock moves to the parent, so that's another piece of really shifting the profitability profile at GE Capital.

**Andrew Burris Obin *BofA Merrill Lynch, Research Division - MD***

So it's not the margin. So I guess some of the interest costs will remain, but should interest costs, they will -- so this historical cost, you can't quite fix it, but the rest of it is going to mobilize...

**Jamie S. Miller *General Electric Company - Senior VP & CFO***

Yes. We'll see an ability to really impact some of the structural. But you're right, some of it will stay.

**Andrew Burris Obin *BofA Merrill Lynch, Research Division - MD***

Got you. And just a question from the audience. So what role should GE Capital play in the long term and do you have to have it?

**Jamie S. Miller General Electric Company - Senior VP & CFO**

Well, with respect to GE Capital, we've got 3 businesses that support the industrial that I do think are important to this company. GECAS, which we talked about a little bit ago, is deep aircraft and engine domain, really a leading business in the marketplace. While on one hand, it is not highly integrated with Aviation, we do think it's made better by the fact that we own both companies, and we understand that technology and that industry extraordinarily well along with its cycles. I think that's demonstrated by the risk profile of that asset. I mean, we've got demonstrated strong risk management performance over the cycles and over the years. Energy Financial services, while we've shrunk that quite significantly, it still retains a very significant origination capability. And while only some of the origination is ending up on our balance sheet today, we're actually working with partners to originate on others' balance sheet. When you look at how we differentiate ourselves with our customers, that financing capability with respect to tax equity and Renewables, that financing capability and the ability to structure deals in the Power space is really a significant enabler to helping us win bigger deals with higher margin in that space and sometimes leverage our balance sheet, sometimes work with partners to do that as well. So I think that's another important capability. And then lastly, Industrial Finance. We are transitioning many of our factoring programs to external program. However, we've got a collection center of excellence. This is something in GE Capital that has been honed over a very long period of time, and I do think helps the industrial business there as well.

**Andrew Burriss Obin BofA Merrill Lynch, Research Division - MD**

And can you describe your aspirations for your single A this year? So what does the company look like in terms of -- as you look at the company today or however you want to define it? What does that imply about cash flow and leverage from the rating agency standpoint for you to be single A?

**Jamie S. Miller General Electric Company - Senior VP & CFO**

Well -- and again, we look at the 2 balance sheets separately, so industrial and capital. And on the industrial side, it means we need to be less than 2.5x net-debt-to-EBITDA. So there's 2 pieces to that equation. The first is really sourcing the cash to make sure we can step that leverage down, and I outlined the path to do that. We feel really good about that. We've got 2 marketable assets in Baker Hughes GE and in Wabtec. And we've got the BioPharma deal with a high degree of certainty around closure, hopefully, this year, maybe in early 2020, but strong and clear sources to cash there. Most of that cash will be used to reduce that net debt. And then on the EBITDA side, we've got very healthy businesses, but we also need Power to continue to improve as we look out over the next couple of years. And as I mentioned before, a lot of that Power story is in our control, and that's something that, as Larry and I go out to Power, we spend 2 days every 2 weeks with Power and Power portfolio. And I think it's something that every 2 weeks, that visibility becomes more and more granular. It becomes more and more focused on the distinct businesses that, as Larry calls, we're running from the bottoms up here in the Power sector. And we see clear line of sight as to how that shifts over the next couple of years. So I think that's the third piece -- the second piece in our...

**Andrew Burriss Obin BofA Merrill Lynch, Research Division - MD**

And on the cash flow, is it \$5.5 billion? Is it \$7 billion? Is it \$10 billion? What will rating agencies say is the threshold at which they will start considering you for an A rating? I'm not saying what you would achieve it, I'm not asking for guidance. I'm just asking what's the rating agencies' framework for cash flow for you to be at A rating?

**Jamie S. Miller General Electric Company - Senior VP & CFO**

Well, I think you can go out and read the reports that are out there. And I don't want to speak for the agencies. I will say that we need meaningfully improved free cash flow, which is exactly what we laid out in terms of the steps to get there and what's in our control and how we put contingency around the uncertainties, and we feel we've got strong visibility to that step change to really be within their zone.

**Andrew Burriss Obin BofA Merrill Lynch, Research Division - MD**

So does your plan -- so you feel the plan that you've outlined, if you execute and if everything goes to plan, you actually have it within that framework that gets you there?

**Jamie S. Miller General Electric Company - Senior VP & CFO**

We think we will make significant improvement on that path over the next couple of years, yes.

**Andrew Burriss Obin BofA Merrill Lynch, Research Division - MD**

Okay. I tried. So look, you also highlighted weak first quarter. Could you give us a sense of what's driving that specifically and give us sort of specific buckets as to where the weakness comes from?

**Jamie S. Miller General Electric Company - Senior VP & CFO**

Sure. So first quarter, we do see lower EPS. We see significantly lower free cash flow than last year, but like...

**Andrew Burriss Obin BofA Merrill Lynch, Research Division - MD**

That would be weak.

**Jamie S. Miller General Electric Company - Senior VP & CFO**

That would be weak. But over the -- but like the last couple of years, our linearity quarter-over-quarter is probably about the same, but then you really see sequential improvement over the next couple of quarters after that, as you would expect. If you look down into the businesses, Power is running with lower revenue, with lower margin, and I think that's been pretty apparent from the shifting we've had in that business. Renewables has a very strong volume year ahead of us. But as I mentioned before, they're impacted by the consolidation of the Alstom JV from an earnings perspective as well as the China tariffs. Aviation and Healthcare, continued strength. Corporate, I think, in the first quarter, we've got a tough comparison to last year, but that's some of the framing around it.

**Andrew Burriss Obin BofA Merrill Lynch, Research Division - MD**

Got you. Actually, it's interesting. I didn't expect it, but we definitely got few questions on an open market aircraft. What can you share with us?

**Jamie S. Miller General Electric Company - Senior VP & CFO**

Well, I -- there isn't really anything to share right now other than if there's a market and if there's a project to be done there that makes economic sense, we'll certainly compete and try to participate in that.

**Andrew Burriss Obin BofA Merrill Lynch, Research Division - MD**

Do you think the 737 MAX delays that issue from where you stand? (inaudible)

**Jamie S. Miller General Electric Company - Senior VP & CFO**

I don't know that I can comment on that.

**Andrew Burriss Obin BofA Merrill Lynch, Research Division - MD**

Okay. What else do we have? A question on -- I think it's a broader question because the question is more about Healthcare. But the question is, look, I think the challenge you have, right, is the company is under a lot of pressure. And how do you send a message to your customers across the businesses that you are committed, that despite the turbulence inside the company, you focus on market share? And how do you make people inside businesses sort of focus on execution, I think, because the question is sort of competitors in Healthcare are mentioning GE losing share? So how do you keep people from being distracted, I would say, inside GE, given what's going on?

**Jamie S. Miller General Electric Company - Senior VP & CFO**

Well, it's interesting. While at Corporate, we spend a lot of time focused on where we are in the total picture, the deleveraging actions we need to take, the focus we need to put on Power. I would tell you when you get into the businesses, the teams are really focused on our customers. The technology positions we have really anchor us very squarely in our customers' operations. I mean, we work day in, day out to keep our customers running, and it's hard to focus on much else when you're in that mode. And when you spend time with our customers, our customers understand the importance of what GE brings to them. They are rooting for us, and I think they genuinely, across the board, want to know how they can help. So I think that's been a very positive thing. With respect to Healthcare, I would tell you that I actually think the team is really focused right now on 2019, just core execution. Larry and I were just out there about 3 weeks ago, and it's really interesting, passionate team, really passionate about the product. But as you look through our imaging and diagnostics businesses, really amazing technical foundation. So great product set. And when you look across that, interesting opportunities to



actually grow. We've shifted share in some of our businesses there, grown in some others. But as you look at the growth story, some of that is self-help, some of that is a really interesting product lineup. And when you look at our ability to grow margins there, look, I think Larry looked at it with fresh eyes saying, "Wow, we've got a lot of opportunity to continue to apply LEAN and other tools to bring a different level of operating execution to the business." So I think there's a great customer story, but underneath that, I think there's also the potential for an emerging growth and cost story.

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**Andrew Burris Obin BofA Merrill Lynch, Research Division - MD**

Let me just go back to balance sheet. So conversations [enticing] conversations with rating agencies on your recent free cash flow output, because I think our fixed income (inaudible) I think it was quite comfortable. I think I've seen some stories that people sort of view it as somewhat negative. So that's part one, where are the rating agencies in terms of your free cash flow outlook? And second, how do you think sort of potential for GAAP accounting change in insurance? And how do you think rating agencies will look at that?

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**Jamie S. Miller General Electric Company - Senior VP & CFO**

Yes. So again, on the first -- again, you really have to talk to the agencies. We do talk to them all the time. They're very familiar with our plan. They understand the elements of it. They see the details and the numbers behind what we've shared with you last week. And they are, I believe, comfortable with it. But they have to speak for themselves. With respect to the insurance accounting changes, and we get this question a lot, there will be a GAAP accounting change in 2021 with respect to insurance. It will be a material impact for, I think, most in the industry and certainly us. When you look at the actual capital requirements in GE Capital though while the agencies have not said anything with respect to how they will view that change, my view, you really have to look underneath and look at the regulated insurance entities. So these are regulated companies. There is a statutory prescribed level of minimum capital. In addition, the GE parent has a formulaic determination of how much capital we put in, which is at a comfortable level. And we've got a plan for how much capital goes in those entities over the next 5 years. Statutory, by its nature, is more conservative than GAAP. So my view is you really look through to those insurance entities at that regulated capital level, and that really dictates and determines how much capital you're probably going to hold there. And then you look at the rest of GE Capital to determine the economic capital that you want to hold. So the agencies really haven't said anything publicly. We have had a few conversations with them, but nothing that really indicates where they'll take that.

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**Andrew Burris Obin BofA Merrill Lynch, Research Division - MD**

Right. So your view is, they're going to take a look at it, and they'll see if it's an insurance business as opposed to a sort of industrial balance sheet and...

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**Jamie S. Miller General Electric Company - Senior VP & CFO**

Well, and I think that's what they do today. I mean, they understand GE Capital very well, and they look at those insurance entities. They understand the plan for putting more capital into them, and I think that's largely consistent.

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**Andrew Burris Obin BofA Merrill Lynch, Research Division - MD**

So the question out here is a good question. What are the management's incentives in place to guide the plan? And can you elaborate on decentralization in the organization? And I think specifically sort of beyond the proxy, if you can sort of talk incentives to level down.

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**Jamie S. Miller General Electric Company - Senior VP & CFO**

Well, the incentives to level down are very simple actually. Last year, we shifted our 2 key incentive comp metrics to be 50% free cash flow, 50% earnings, and that is exactly the same as it is this year. So when you look at that, what we're really trying to drive is a very disciplined focus on free cash flow with our businesses. And we think this year, in particular, that's the right kind of focus. The other part of your question was on Corporate?

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**Andrew Burris Obin BofA Merrill Lynch, Research Division - MD**

No -- yes, that's right.

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**Jamie S. Miller General Electric Company - Senior VP & CFO**

The shifting there...

**Andrew Burris Obin BofA Merrill Lynch, Research Division - MD**

Decentralization in the organization, yes.

**Jamie S. Miller General Electric Company - Senior VP & CFO**

Yes. So at Corporate, when we entered 2018, we managed about \$7 billion of costs at Corporate, 28,000 employees. And whether it was global -- what we call global operations, which is shared services, things like account recs and billing and payables and things like that or IT, IT was all run centrally. We obviously run Global Research centrally. We have our Global Growth Organization. We have a lot of things that had really been pulled up out of the businesses with a view that, with economies of scale, we would run at lower cost. I think the challenge we've had with that, and this is where we've got a fundamental philosophical change, is I think the businesses sometimes feel like they don't own it. And so your ability to actually impact the strategy, your ability to touch and manage that cost more directly had become more disconnected. So in the middle of '18, we just fundamentally shift that, and we're in the process now of pushing the shared services back to the businesses, pushing IT back to the businesses. We've moved 10,000 heads already in our execution plan and over time getting ourselves to where Corporate does not run any of these central services. We -- our view is if the markets in the businesses generate them, they will figure that out, and they will manage those costs to the levels that they think are appropriate to the business over time. And then that leaves you with Corporate, which again the company is going through a lot of transition. We're shrinking, and we're taking Corporate down as we go. And so while we've got measurements out there, we've said more than \$0.5 billion of Corporate cost out by the time we hit 2020, more than that in 2021, I think what you should expect of us is as the company transitions and as we resize, Corporate will resize with it.

**Andrew Burris Obin BofA Merrill Lynch, Research Division - MD**

Maybe one more question. So there was a question asked about recession and it seems that the audience has very different views if and when there is a recession. So what happens to your plan if there is a recession in the next 12 to 24 months? What's the internal contingency plan for -- in case of a global recession?

**Jamie S. Miller General Electric Company - Senior VP & CFO**

Well, I think if you look across our businesses, most of them in this cycle are pretty recession-resilient for the next 12 to 18 months. Aviation continues in a strong cycle. Obviously, we'll see if anything happens with the 737 MAX, but 2019 feels very solid there. Healthcare, growing sector, continues to grow. If you look at Power and Renewables, we've got substantial backlog there. And those are 2 sectors that while over time could be impacted by a recession, it really tends to not be more of a near-term thing.

**Andrew Burris Obin BofA Merrill Lynch, Research Division - MD**

And outside GECAS, what is also (inaudible).

**Jamie S. Miller General Electric Company - Senior VP & CFO**

Yes, yes.

**Andrew Burris Obin BofA Merrill Lynch, Research Division - MD**

I think that's all the time we have. Thank you so much for being here.

**Jamie S. Miller General Electric Company - Senior VP & CFO**

Great. Thank you, Andrew.

**Andrew Burris Obin BofA Merrill Lynch, Research Division - MD**

I look forward to speaking with you. Thanks so much.

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## MARCH 19, 2019 / 8:00AM GMT, General Electric Co at Bank of America Merrill Lynch Global Industrials Conference

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