EDITED TRANSCRIPT
GE - General Electric Co at Citi Global Industrials Conference

EVENT DATE/TIME: FEBRUARY 21, 2018 / 9:15PM GMT
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PRESENTATION

Andrew Alec Kaplowitz - Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

Last, but certainly not least, during the day is General Electric. I'm -- let's put it this way, I'm now definitely in a minority in recommending the stock, but I think it's very, very interesting and timely to have Jamie Miller with us. Jamie's done a lot of different things at GE to sort of prepare you for this role as CFO. I'm going to read a couple of the things here. You became CFO in October 2017. GE Transportation -- Head of GE Transportation, CIO of the company. Before GE, you were at WellPoint, now Anthem, and a partner at PWC.

QUESTIONS AND ANSWERS

Andrew Alec Kaplowitz - Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

I think the best way to sort of start this will just be to sort of talk about GE in this environment, as we sit here today. And what I mean by that is inflation has started to pick up, the macro economy has started to pick up, the dollar has been weakening a little bit, we have tax reform, the impact in you guys. I mean, we'll get to some of the GE-specific questions, but I just want to ask you, how do you sort of manage the business in this type of changing environment? And competitively, when I look at things, like the weaker dollar and tax reform, I do think that, that advantages GE over time. But maybe, you can talk about that to start off.

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

I think that's right. When you ask -- I'll start with your how do you manage the businesses. I think, first, it's not managed at the macro level. It's really managed in the context of each business in and of itself. And whether it's the weaker dollar, tax reform, whatever the interest rate environment will be, I think all of those things have different impacts depending on where you look at things. You look at the weaker dollar and you look at just the global footprint of the company. One of the benefits we have is that we're deeply global. And we're localized in most of our markets, which means we really can have the benefit of sourcing from where we need to source to manage the right cost profile from the company. And I think, overall, that's a pretty manageable element for us. Rising interest rates is another one. There's been so much discussion lately about that. If you start to look at maybe some step change that people are starting to expect there, I would say, over time, from an interest rate perspective, net-net, that's probably a good thing for us. Both our pension obligation, our insurance obligations, both of those benefit from higher reinvestment rates. Our pension alone, a 25 basis point increase in rates, really reduces our pension deficit by about $2.2 billion. So that's a healthy thing. And then when you start to look at the earnings run rate of the company, net-net, rising interest rates are actually better for us than the reverse. Tax reform has been a good one. We think territorial -- the territorial system is very strong, especially for the company. We play everywhere, as you know. It's helpful for us from a couple of perspectives. Number one, from a competitive perspective, we are no longer competing on the basis of kind of where we live and where we're from. We think that is really good for the company, especially when we compete with other countries who have territorial systems. So that's really strong. I'd say, while our rate, over time, will come up a bit, we think the benefits of simplification, the benefits of territoriality and the benefits of no longer having sort of this idea that you've got overseas earnings or unrepatriated equity, things like that, just helps simplify our footprint and how we can manage.
Andrew Alec Kaplowitz - Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

And to be clear, though, interest rates would have to rise a lot before you don’t fund -- prefund your pension plan that you talked about.

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

That’s right, that’s right. We’re planning a prefunding of our pension plan this year of about $6 billion. And our deficit is such that even in a -- what we expect to be, for at least a while, a rising interest rate environment, we still expect to do that pension prefunding right now.

Andrew Alec Kaplowitz - Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

Got it. So one of the beauties of being the second presentation of the day for you guys is I get to get 5 e-mails in my box about asking you follow-up questions. So let me just ask you this, so you talked about sort of guidance in the low end of the range for 2018 EPS. Maybe talk about why you’re doing that. What is different than what you guys talked about on November 13, basically?

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

So versus November 13, I would say power feels about the same as we expected for ’18, maybe a little worse. Aviation and Healthcare still feel very good. Renewables, about the same, maybe a little bit of pricing pressure as we come into ’18. Transportation, I would say, there, we actually are starting to feel some nice market movement, both, I’d say, orders conversations around mods, around new activity, while they haven’t manifested themselves yet, we’re starting to feel that movement in the market, which is healthy. The other piece of that, where we should see some upside, is mining. And I think that’s good there. The flip side of it is when you move over to GE Capital, we talked in January, when we took the insurance charge, we talked about how we’re repositioning GE Capital. And part of that is to exit certain businesses and sell certain assets. As we do that, both in terms of breakage or excess debt interest, we expect GE Capital to be about breakeven this year and next year, which is lower than what we had originally guided in the November 13th guide. So that -- that’s really the piece of it. We still see $1 to $1.07, but just really more at the lower half of that than before.

Andrew Alec Kaplowitz - Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

Got it. What sort of -- you talked about earlier also with Baker Hughes and sort of the potential improvement maybe on the legacy side of the business. And there’s been lots of talk -- and you guys have talked about it. When do you want to monetize it, if you want to monetize it? So maybe just clarify where GE’s head is right now in terms of how it feels about the Baker Hughes asset and the potential for improvement. Again, half of the business is legacy GE, so...

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

Baker Hughes has been a great combination, actually. It’s a good fit from a business perspective, good integration of cultures. Both sides of the management teams have come together and, I think, are executing well. They’ve got a good plan. We have a lot of confidence in them. We’ve taken a good look at the investment. We like the macro trends. But look, you look at valuation and where it is today, and we think there’s a lot of upside there. At this point, we have no intent right now of changing that prior to the lockup period expiration, but when you start to look at the oilfield services versus the long-cycle businesses, like others, we’re seeing a nice pickup in activity in oilfield services. I think one of the key distinctions between us, Baker Hughes-GE and others, is really the long cycle element of it. And that’s a space where we haven’t yet started to really feel our customers really shift kind of that macro buying pattern. We do expect that to happen, but it will be late cycle, maybe late this year and into next. But that all kind of factors into where we look at the macro trend, we look at what we see in BHGE, we look at their execution, and we feel pretty comfortable with where we are right now.
Andrew Alec Kaplowitz - Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

Got it. So one other follow-up that I would just go with this -- the sort of commentary you made on the WMC, to the extent that -- so like when I look at the 10-K, I think -- and you can correct me if I'm wrong, you have 11 of these sort of suits. And I think you said in the last 10-K about $6.5 billion is sort of the outside what these lawsuits are worth. But then you guys had estimated something between 0 and $500 million of cost. So maybe update us on what you've seen out of the WMC liability right now. Or how do we...

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

Yes, there's 2 pieces of WMC. The first are the reps and warranties lawsuits that you're referencing, and that is something that -- the number you're referencing is really sort of the face value.

Andrew Alec Kaplowitz - Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

The face value, yes.

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

Yes, and some of that. We've worked our way through most of those. We have a few more things to resolve. We've got a reserve on books that, we think, represents what we see, so we feel good about that. The other side of this one is the Department of Justice investigation, the FIRREA investigation that we're -- that they're undertaking. This is one that's been going on for a couple of years. It's something that, I would say, we have not yet had substantive discussions with the DOJ on it. So it's still relatively early days there. But people, I think, often asked me kind of as I have come into the role, how have I really sort of gone deep on the balance sheet? Where do I really think about just things to watch in GE? And that's when I put on certainly on my watch list.

Andrew Alec Kaplowitz - Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

Okay. And then the other one with regard, obviously, is the SEC investigation. So maybe just tell us anything that you could tell us on it from where you updated us last time. How is it progressing? Does the SEC move slowly, fast? Anything you could tell us there?

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

So the process has started. They've made several requests for information. We're, of course, cooperating with that. And we've provided them some information. We'll have some face-to-face meetings with them in March. Regulatory investigations sort of proceed at their own pace. And we're working cooperatively with them, as they go through their process.

Andrew Alec Kaplowitz - Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

Got it. So when we step back, I mean, you came into the role and, obviously, there's a lot going on, right? So how do you feel about sort of getting on top of all of these things? And I mean, I've already asked you like 6 different things going on, but what's your comfort level in the noise level that the company is starting to go down each quarter? Because I actually thought the fourth quarter looked good in terms of cash flow, which is sort of the #1 priority right now, but it kind of got washed away with all those other stuff. So maybe talk about, when can we focus on the business itself and the improvement that we're starting to see in the business?
Jamie S. Miller - General Electric Company - Senior VP & CFO

Well, that's what we'd like to do right now, actually. We were really glad to get December and January behind us, get 2017 behind us. As I have come in, I think I'm really benefited, honestly, by the fact that I spent 5 years as GE's Chief Accounting Officer before I became the CIO. And when you're in those kinds of roles, you deeply know the company's products, how we go to market, our customers, our business models. You know where we're good. You know where we're -- we've got challenges. And I think, equally importantly, you know processes and you know the people. And you know how the people call it in the business, so to speak. So I think I had pretty deep foundation coming into the role at the start. Having said that, I've spent the last 3 months, and I'm going to be spending the next few months as well just going deep, last 3 months deep on, okay, exactly where we are today. I think we were glad to get '17 behind us. I think, honestly, in '18, we've got really 4 key priorities. One is to make sure the businesses that need to get reset are reset. Power is the one I'm thinking about when I say that, that we reset and stabilize Power, I'd say. The second thing is really running the company for cost and cash and the right returns. And the third is really running with a deep operational rigor. And the fourth thing, which we can talk about, I'm sure you'll have another question on this, is really kind of portfolio and how do we think about that. But sticking with the running the company, better piece of it, we think we've got a lot of opportunity there. I like to joke and say, "We just need to go be boring for a while." Because when you're really, really great operationally, you're actually pretty boring.

Andrew Alec Kaplowitz - Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

GE was boring for a pretty long time (inaudible) for that, yes.

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

And I think there's -- well, we've got businesses that are performing really well. Aviation, Healthcare has had a really nice sort of methodical movement in their operating margins and revenue growth. We've got real opportunities with Power. We love Power's installed base. We think the Services franchise can be very strong. But as you know, the market is shifting and how we've really needed to sort of reset how we're thinking about that business, that's a real pivot. From a market perspective, it also means we're taking some very deep and hard restructuring actions in that business, too. So 2018 is really a year that, I think, we enter with that as a backdrop, and our real profile is to exit with just a much cleaner view as to the play we're running as we get into '19, which really involves a right sized set of businesses with clear line of sight as to the incremental restructuring actions we're taking, the Services business really shifting around, just humming in terms of setting it up to recapture, scope share and price. And then the last being just as a smart look at that portfolio and making sure we're thinking about it the right way.

Andrew Alec Kaplowitz - Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

So Jamie, it's really hard to, like, believe, that we went from the -- your predecessor, you're the CEO of GE who talked about high single-digit service growth basically forever to the big declines that we've had here over the last, call it, 2 years, we're going to have in Power. And so maybe sort of walk through how we stabilize that Service business and we get more cash flow out of that Service business? And what happened? And what can you do better? What are you doing now to improve that business?

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

So I'll talk a little bit about what we've done over the last 2, 3, 4 years to help the business go into the future. And I'll talk a little bit about some of the actions that we're working to pivot on right now. So one thing, in the Services business, the services installed base is a critically important element of our business model, frankly. How we provide parts into those outages, how we do the wrench turning, how we help our customers really with uptimes and work scopes is really, really critical. There's 2 pieces to that business, right? There's the services flow that's under contract.

Andrew Alec Kaplowitz - Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

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

And then there’s the transactional piece of it. So at one level, I think one of the things we did really well over the past 3 or 4 years was really recognizing and working with our customers to upgrade our units, to make them more efficient and to really ensure that they run longer and further out into the future as a primary source of power. And so the AGPs that we sold over the last 3, 4 years was a really important part of really setting this business up, I think, for the next decade or 2. That’s a piece of -- what’s -- one thing to think about. The second thing to think about is that we took a lot of cost out of our Services business. Now on one hand, that’s a good thing because it means the cost of providing those services under our contracted services obligations is much lower. That’s really good, we’re really good at that. I think what has been hard about that is it also caused us to pivot some of the teams, or I should say, many of the teams on our transactional side into regional structures, really take cost out of some of the places. And I think what we’ve seen is the idea of feet on the street, engineers on the decks and at our customer site, it’s just been a different profile than what we had, had historically. And that’s not been something that’s been helpful to the business. So as Scott Strazik, who is our new services leader, has come in, those are the things he’s really been focused on, so making sure that we continue to run the right play in the services contractual franchise, but in the transactional piece of it, that’s where we really think there is significant opportunity. And it’s both knowing where the installed base is mapped exactly when those outages are going to occur -- be incurred, but also really making sure that the engineering force, the field force, all the other supply chain parts full elements are lined up to capture that in a way that, honestly, as we had gone some through cost cutting, we had probably not made the best decisions around.

Andrew Alec Kaplowitz - Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

Got it. So I’m going to open it up to the audience in a second, but I wanted to ask you, just following on in the service commentary. One of the pushbacks I get is if you’re going to do $6 billion to $7 billion in cash flow in 2018, how do you grow from there? And in order for GE to be a good buy here, you do need to grow cash more than just $6 billion to $7 billion in free cash flow. So a lot of that is Power, right, and it’s a combination of cost takeout and improving the business as you just talked about. Does the business -- does the overall environment have to stabilize? Like, how much can you get cash out of this business by just your own self-help as you get down to an event? Can you get -- where do you get more cash from versus that $6 billion to $7 billion? Is that just growth in the other businesses? Is it working capital because you’ve done well in working capital over the last couple of years? You have had contract asset headwind. So there’s a lot going on. Maybe help simplify it for us.

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

Well, let’s talk Power first, and then we could talk the bigger picture. The Power side of it, we see the market coming into ’18 to be down from what we saw in ’17. I think Power is less about the market stabilization piece of it and more about us executing our actions around restructuring to take cost out, really pivoting and refocusing our Services business to re-profile, both share scope -- well, to re-profile share scope and price, so that it sets us up to really both have the higher earnings and cash run rate in that business. And the operational execution has to improve. Now one of the things we’ve talked a lot about over the last couple of quarters is the fact that Power built up a substantial amount of inventory in 2017. Part of what helps Power is really burning down that inventory over the next couple of years, coupled with just running it better. We’ve got inventory turns of 4 over the company right now. And as we think about the opportunity there, a big, big piece of that is in Power itself.

Andrew Alec Kaplowitz - Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

You know approximately how much inventory there should be versus what there is now?

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

We do. We’ve got good -- very good line of sight into that. We brought in the best supply chain leader in the company, put him into Power back in November. 2 months in, he has very clear line of sight, not only to kind of what he thinks entitlement is and over what time frame, what are the actions to get there, but also when you think about rightsizing our supply chain for the markets that we’re in, sort of line of sight into what that needs to be and what the cadence around that should be. So I think we’ve got good plans that are starting to get set in motion there and a good
line of sight. So Power, I think, is a really helpful element in the backdrop of free cash flow. When you look at the other businesses, all of those actually performed pretty well on that basis. Aviation is still in an investment cycle, as we look at the LEAP launch. We are seeing some nice inventory improvement as we get into '18, and we start to see the LEAP ramp sort of levelize as we get to the end of '18. So that should help us. And then when we get into '19 and '20, I think you really get into how our Services businesses across these different industrials, the cash flow profile of that fundamentally has to change. And part of that is the core asset burn-down and part of that is commercial actions that we've been implementing and continue to implement around structuring these contracts at the outside -- outset to have a different cash burn profile, vis-à-vis the operating's earning profile. And while we're not fully seeing that take hold yet, that should start to come through over the next 2, 3, 4 years.

Andrew Alec Kaplowitz - Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

Contract asset should theoretically burn cash. I mean, you should theoretically get -- if contract assets are $15 billion, you should theoretically burn a significant amount of that cash over the next few years.

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

And we do. I mean, if you think about our Services businesses, they're much bigger than just what's sitting in our contractual services arrangements. Services cash flow turns every year at quite a substantial amount, both transactional and contractual. But when you think about the contractual asset, I think you'll also have to think about a couple of things. In the first half of these contracts' lives, we're typically investing in these assets. We're stabilizing technologies. We're launching them in their earlier years and making sure we're really meeting those customer guaranteed uptimes. And we're investing more in the lives of those assets. And the second half of these assets' lives is typically when we're taking a lot of cost out of how we provide those services. So whether that's lower cost parts, whether it's better work scopes that are more efficient, whether it's just lightning the labor hours that go in because we can garner efficiencies through doing it a different way, the second half of those contract assets' life is, really, where you see those efficiencies start to come through and that equilibrium really shifting. The challenge is -- if you think about contracts assets, it's almost investment in a book. And I know we like to look at the last 4 or 5 years of growth in that book. Well, we've also had very substantial growth in the assets under management. Aviation alone, as an example, has had engine units go up by 89% in the last 4 years. So it's natural that, that asset life -- that asset is going to grow with it.

Andrew Alec Kaplowitz - Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

And just to push you a little bit before we open up to -- the power inventory potential, is that $1 billion, plus? Is that...

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

Yes.

Andrew Alec Kaplowitz - Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

Okay. Any questions from the audience? Or should I go ahead? Do we need a mic for him, anybody? We have one. No one have a mic. We can repeat the question. Go ahead.

Unidentified Analyst

On GE Capital, can you just talk about your level of confidence than breakeven? Is that a conservative number? Or is -- I guess, like global confidence, it should be at least breakeven in '18 and '19 on the predicate of major assumptions that go into that. It seems like a big black box for everyone.
Andrew Alec Kaplowitz - Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

The level of GE Capital breakeven in '18 and '19 seems like a big black box for everyone. Just quoting him.

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

I feel pretty confident in that. We -- you can segment GE Capital into a couple of different parts. And you've got 3 businesses there, GECAS, EFS and industrial finance. You got the insurance business and then you've got other trailing liabilities and obligations. And if you just parse through each one of those, it's probably the easiest way to think about it. GECAS, pretty much, will run as it has run. You've got EFS, where we're taking actions to both exit a couple of businesses and/or sell certain assets. We think we've taken a pretty good view as to how to think about what those asset sales will yield, and we don't expect breakage from that. We think it will roughly land where we think, as we go through that. That's probably a 12 to 24-month sort of time frame. And then industrial finance is the other piece, where the biggest change in industrial finance is really the shifting of some of our internal factoring programs to external banks and shifting to external programs. We think that should be not really disruptive, as we do it on either side, either capital or industrial. So we feel okay about that. And then the last 2 pieces. So one is insurance. We took a pretty big charge on that, as you know, in December, announced that in January. We took a very thorough approach to that. We had 2 outside actuarial firms involved in that process. We had both our own independent accountants. We had our auditors. We had another outside accounting firm involved in that. So we think we rebuilt that reserve model in a pretty comprehensive way. Over time, rising interest rate environment helps us there, so that can always be viewed as a helpful factor. And then trailing obligations and/or excess debt, things like that, excess debt, happy to talk about, but we have really blocked and tackled how we see cash over the next 3, 5 years and have a pretty good line of sight to how that emerges. And then lastly, the trailing obligations, I think the thing we talked about before, WMC and FIRREA, those are really the larger ones to watch. WMC, I think we've got right on the balance sheet. FIRREA, it's just hard to estimate right now. And then there's some other trailing stuff. I mean, we've got some indemnities from discontinued -- that sit in our discontinued operations from some of the businesses we've sold, a little bit of indemnities on some litigations, some tax matters, things like that. But again, we've got reserves in a couple of places on that and feel okay. So line of sight, hopefully, that helps unpack it a little bit, but we feel okay about it.

Andrew Alec Kaplowitz - Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

So I think it's a good segue into portfolio management and the $20 billion that you guys have talked about. One of the things, just to start on that topic is, when John Flannery talked about -- I mean, someone asked him and he said kind of everything was on the table in terms of what could happen with GE, one thing you notice that the GE bonds kind of did some wacky things. And so I guess, my question to you is, how much do you pay attention to sort of the bond market? And maybe clarify what John meant by everything's on the table for whatever the new GE looks like.

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

Yes. And so I'll start with the bond piece of it. And we've been very open about the fact that we are executing 2018 to a more conservative balance sheet profile. And part of what that means is we expect to get back to within 2.5x net debt to EBITDA ratio and really targeting a ratings profile that's consistent with where we are now, so that's a guidepost for us. I think the second piece of this is we have a lot of different constituents out there, bondholders, pension holders and others. And in any scenario, those are important constituents for us, and we're going to make sure that we do the right thing there. When you think about the portfolio piece of it, I think -- I talked before about running the company better. And there's this tendency to want to talk about either/or, right? Either, yes, run the company better or wait a minute, maybe we can have some starburst effect over here with the portfolio action. I actually think the way you should want us to think about it is this is an 'and' equation. We need to run our businesses extraordinarily well and it doesn't mean it's to the exclusion of other stakeholders, too.
Got it. And I think you made a point this morning about maybe under-appreciating the synergies of when you do separate bigger parts of your business. Maybe just clarify what you mean by that. And is there a way to quantify or give us examples of what you were talking about with that?

I don’t remember that comment, but I’ll talk about dis-synergies and synergies. At anytime you look at a company as big as GE, with as much of a matrixed set of businesses, a lot of the intercompany supply arrangements in the business, a lot of technology sharing in the business, coupled with some of the external pieces of it, as you look at it, you see both synergies and things you can unlock and maybe do better. You also see dis-synergies, no doubt, as you look at it. And maybe a simple way to think about it is Baker Hughes. I mean, one of the things we did with Baker Hughes is we very much thought about how to set them up for success by really setting up a governance structure that made sense for them. So we preestablished intercompany supplier arrangements at market prices for an extended period, so that they knew they would have access to that supply when they needed it to really help launch the company. We made sure that we had strong definitions around commercial markets as to how we shared them, how we divided them, how we went to market together in certain cases. And we also made sure that we had the right technology access and other, whether it’s shared services or other elements of that access together, too. So look, I think we can be very thoughtful as to how we think about it on things, Baker Hughes is a great example, but it doesn’t mean that, as you look at the entire company, it’s an easy process, either.

So when you think about the $20 billion in assets, talk about the time frame. I mean, John said 1 to 2 years. Like you’ve -- we start to hear some announcements out there. Do we start to accelerate here in terms of the process around the $20 billion?

I think you’ll -- look, we’ve come up with a list just through our initial sort of reviews of the portfolio that, whether it’s a few product lines, whether it’s some businesses that are subscale, these are things that either are products that we have that we haven’t been able to get to acceptable return margins. They’re maybe a few businesses where we think to get it to scale in GE requires us to put a lot of capital behind it, either executing into deep M&A transactions to get it to scale from a distribution or technology perspective. And those maybe things where we actually think those businesses are worth more outside of GE versus inside of GE. And we’ve got some other stuff that is, frankly, just a little bit of cleanup. Either technology. So you sort of hit their maturity curve, things that are just noncore to us, where we haven’t -- we’re not able to spend as much attention or time, that’s really what we’re working our way through. We’ve got a good process around it. We really grind that every couple of weeks with our portfolio teams. But it’s also something that we’re going to make the right decisions around, as well. Some of these are pretty well known in terms of what the value is, how do you optimize that value or those are things that either the market may not be right or we’re going to wait until we get the right construct of either buyers or deals to do it. So I think 12 to 24 months is probably the right time frame to think about, and that’s roughly what it feels like. And some of that, as you mentioned, is starting to emerge.

So maybe talk about, like, the new GE board once you sort of get that. Like, what’s the expectations for new board members? What are you looking for in a new board?

I think you’ll -- look, we’ve come up with a list just through our initial sort of reviews of the portfolio that, whether it’s a few product lines, whether it’s some businesses that are subscale, these are things that either are products that we have that we haven’t been able to get to acceptable return margins. They’re maybe a few businesses where we think to get it to scale in GE requires us to put a lot of capital behind it, either executing into deep M&A transactions to get it to scale from a distribution or technology perspective. And those maybe things where we actually think those businesses are worth more outside of GE versus inside of GE. And we’ve got some other stuff that is, frankly, just a little bit of cleanup. Either technology. So you sort of hit their maturity curve, things that are just noncore to us, where we haven’t -- we’re not able to spend as much attention or time, that’s really what we’re working our way through. We’ve got a good process around it. We really grind that every couple of weeks with our portfolio teams. But it’s also something that we’re going to make the right decisions around, as well. Some of these are pretty well known in terms of what the value is, how do you optimize that value or those are things that either the market may not be right or we’re going to wait until we get the right construct of either buyers or deals to do it. So I think 12 to 24 months is probably the right time frame to think about, and that’s roughly what it feels like. And some of that, as you mentioned, is starting to emerge.
thinkers. We want folks with domain that will really help us think through elements of our portfolio. And I think our current board construct, frankly, is very healthy. I can tell you. And I've been at the meetings over the last 3 months. It's a very healthy debate. It's a very healthy discussion. We got a lot of independent thinkers today. But I think shrinking the size of it is only going to open up discussion in a better way. And I think adding a few deeper domains in certain industries will be helpful, too.

Andrew Alec Kaplowitz  
Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

Any other questions from the group? Anybody have anything? No? Okay. So look, I think as you talked about -- one of the sort of feedback that we get around the asset sales is -- so you do these assets sales, some of them are pretty cash-generative. So does that impact cash over time? How do you respond to that when it comes down to it? I mean, is there a cash bleed that comes from these asset sales? Or how do we think about that?

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

Of the first $4 billion that we really have line of sight to, 2018 doesn't impact cash flow. 2019, it's less than $0.5 billion of free cash flow, so manageable in that respect. In some of the bigger assets, we've been pretty open about the fact that we'll think about what are the best ways, best constructs for those. Could they be spins or splits or other forms of transactions that make sense? That really just leave the shareholder wholer, in fact, our value creating, as we do them. We're considering all those different options.

Andrew Alec Kaplowitz  
Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

Got it, got it. And then sometimes you get pushback around the dividend. You cut it 50%. It seems like it's very manageable. When do you get to a payout ratio that you're comfortable with? How long do you think that, that takes?

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

We've got moving parts right now. We've talked about this being a reset year for the company. We'll see Power kind of stabilize and come back in line. We'll see some of the shifting in the portfolio. Down the road, if there's a spin or a split, could you see some shifting dynamics there? I mean, certainly that would have to be something you'd think about. But in terms of a payout ratio, I think the board, when they reset it, was pretty thoughtful about setting it with -- within a band of what they felt comfortable with. And I think, line of sight to what we see, we feel pretty good about that.

Andrew Alec Kaplowitz  
Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

Got it. So we spend a lot of time talking about Power. We spent -- and talked about oil and gas. Maybe talk about Aviation, good execution that they've had there. But you've got a huge ramp-up that's going on there. So maybe talk about that and how that's going.

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

Aviation is in a really nice cycle right now. The team is executing extremely well, real technology leaders in what they do. The LEAP launch is going really well. We said we would ship between 450 and 500 engines in 2017. We shipped 459. The engines in the field are performing very well. As we get into '18, we see that we expect to ship about between 1,100 and 1,200 engines, really exiting '18 with a run rate that will hit sort of our production levels in '19. So I think the team is performing very well, working through supplier dynamics as they do it. And not like any big launch there, navigating it, but really good line of sight.
Andrew Alec Kaplowitz - Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

And then Renewables is a smaller business, I know, but you definitely talk about pricing issues in that business. There's definitely a bit of a change and PTC was under review, all that kind of stuff. So maybe talk about how that team is responding to that and the ability to take out cost in that business versus price.

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

Sure. So Renewables, couple things on pricing. First, competitive market dynamic, to begin with. I'd say, second, in some of our markets, we're starting to see more price competition. For example, in the European markets, we're seeing more use of auction bids as a way to really do some of the bidding process. As we do that, that tends to lengthen the process. It actually makes it more competitive, as well. And then in the U.S. market, you talked about PTC. As we went through tax reform in December, some of the changes that were enacted in tax reform have shifted. Some of the tax equity financing market is participants. And as that did the -- well, it didn't wholesale shift those markets. Some of those shifts are things that are creating a little bit of pricing pressure. Some of that happened in December. We're still feeling a little bit of that in the first quarter. New financing entrants are starting to come in, and we're starting to feel that kind of normalize. But that created a little bit of a higher return profile expectation, which creates the pricing pressure for the Renewables businesses that participate. That's kind of the 3 dynamics we're feeling, as we go into '18. In terms of how we think about executing against that, that's what this team does. I mean, the team is very focused on 2 things. Number one, strong technology launches. That is really important in that market. And number 2, really running a methodical play around variable cost productivity and taking product cost out. Pete McCabe runs that business. He's been there about a year. He is an excellent leader and he is just really deep on sort of that methodical, lean, cost out, how to think about supply chain and VCP. And that's really what offsets a lot of the pricing pressure. So it's both. They've got to navigate the dynamic, but I think they've got a good team and a good plan to really work their way through that.

Andrew Alec Kaplowitz - Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

And so I asked you all these questions in the beginning about these issues or whatever you want to call them, but maybe tell me which you're excited about. What should we be bullish about at GE here as we go forward? That's a good last question to ask here.

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

Well, first, we operate as, I think, just leaders in our industries. And if you look at GE and say, "Well, but there's a few things you got to fix." You got leaders in your industries, and these issues are eminently fixable in terms of really re-profiling the couple of businesses we're very, very focused on, to be strong earners and strong cash returners. And I think that's healthy. I think the third thing that I'm excited about is we've got, I think, a board construct that is really thoughtful and going to be methodical with us in terms of how we think about the construct of the company over time. I think that's healthy for us. I think that's healthy for you. And I think 2017 is behind us, so that's another piece of good news that I'm excited about.

Andrew Alec Kaplowitz - Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

I hear your, I hear you. Well, thank you very much for joining us, Jamie.

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

Happy to be here. Thanks, Andy. Okay.
Andrew Alec Kaplowitz - Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head

Very much appreciated, yes. Okay.