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GE - General Electric Co at Electrical Products Group Conference

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CORPORATE PARTICIPANTS

H. Lawrence Culp *General Electric Company - Chairman & CEO*

PRESENTATION

Unidentified Analyst

All right I think we're ready to go. The final presentation of EPG 2019, we're excited as always to have GE here. The Chairman and CEO, Larry Culp, as you all remember, took over in October 2018. We all know Larry from his very long and storied career at Danaher. Larry, without further ado, mic is yours.

H. Lawrence Culp - *General Electric Company - Chairman & CEO*

Great. Thank you, [Joe.] Good afternoon. I've heard stories about the third day, I guess some of them were true. I want to just try to keep your attention for about 40 minutes, I know we have a bit of a distraction here outside with the taping of Wheel of Fortune. I'll let you do the compare and contrast. But it is good to be here, it's good to be back at EPG, particularly representing General Electric. We've -- also quite proud of the fact you saw 3 of my former mates earlier in the week, you saw [Jim] on Monday, I guess [Desante] was here yesterday and [Andy] was up earlier today So it's great to see how well they're doing in their respective capacities. I thought what we would do is go for a little bit with some of the slides here, just to give you a sense of how I see things, 8 months in, what we're dealing with, what we're working with and really the road from here, and obviously save a good bit of time for your questions.

As we've said almost ad nauseam, during the course of 2019, as we've begun to frame for you publicly what we're doing at GE, I think we've been consistent in underscoring the task at hand. This very much is a multiyear transformation. There's a lot to do, I think we're making progress but I don't want anyone to walk out of here thinking this is something that is easily fixed. There's a lot to do here, I think the team is engaged very much around that agenda, around that reality, and we'll talk through what that looks like and what we're going to do about it as we go forward. I think we're confident that we'll create value for investors over time as we serve our customers better than we do today, and that's a symbiotic relationship that we'll talk about at some length. One of the things I'm most excited about at GE, coming from a background where they had a strong orientation towards recurring revenue is the size, the strength and the nature of our installed base, and you'll see that as we go through the portfolio, many of you are very familiar with the nature of our aftermarket business, but it really allows us to get in close to our customers, create value for them, create value for our investors and that's a good dynamic for us to build upon as we move forward. And then finally, there's a lot that we're doing really to get back to basics, if you will. To become more of an operating company, more of an industrial company, as strange as that might sound. But that is the core of this business and you see that in this portfolio as it's been reshaped and very much is the operating mantra that we're employing business by business today at GE. And I'll take you through that in a little bit. But I really think this is the frame, this is the equation for us as we move forward with an eye toward transforming General Electric. Many of you know this portfolio very well. Power, Renewable, Aviation and Healthcare. 4 strong businesses that all can be better. $85 billion in revenue. $353 billion of backlog. There's a lot to work with here. And again, you see some of the demographics relative to the installed base, we really are critical to our customers' day-to-day operations and there's no better place to start than there. If those are the 4 bricks, the mortar in between the bricks are really the corporate capabilities that we have that help all of our businesses, albeit in different ways, improve and grow. Be it what we're doing at Capital, at GECAS, and at EFS. Some of the technology that comes out of the DRC or GRC, let alone what we do with both our additive and our digital initiatives in addition to our global growth framework, where we really have GE capabilities all around the world led by Rachel Duan to make sure the businesses are tapping in to the growth opportunities that are far from home and often more challenging to capture. We have 2 other assets. Worth noting here, as you think about GE today, Baker Hughes and Wabtec, we hold just over half of the equity at Baker Hughes, that's a position we will be exiting, as we have indicated before. No news today on that other than we plan an orderly exit over time of the Baker stake. Wabtec, we took about half of that stake down since the first quarter earnings. Very pleased with the reception of that offering and over time you'll see us completely exit our position at Wabtec. So all in all, a lot to work with here and we're excited about the base that we have here on a go forward.

Look, when we talk about a multiyear transformation, it really is a game of inches and it starts in 2019. Then we've tried to frame 2019 as a reset year because we have a lot of work to do. In some businesses more so than others, certainly at corporate. And I think as we think about the task at hand, there are a couple of things that I want to make sure you understand and we'll get into some depth on the next 2 pages. Here we're really going to start from an operating perspective day-to-day with the deleveraging. You've heard me from almost the first day, back in October, talk about this is our #1 priority, making good progress here, want to see through the BioPharma divestiture for $20 billion of proceeds, clearly what we're doing at GE Capital this year to complete the $25 billion asset reduction program helps us a good bit there as well. We want to get GE on firmer financial footing. It's that simple. And there's a lot we're going to do this year to make progress in that regard with an eye toward deleveraging both the industrial and the capital balance sheets at -- on the industrial side, it's 2.5x, at capital less than 4. That's, if you will, one priority. The other priority is really strengthening the businesses and running the businesses differently. Again, getting back to our industrial roots. This starts first and foremost at Power where we have a significant turnaround in play but it's not limited to Power and I'll take you through what this actually means day-to-day, in terms of how we're running the business, how we're really reinventing the way we work. But it's not just a function of what we're going to do in the businesses. Frankly, one reason we're here is what happens in the boardroom. And as many of you know, we've really transformed the shape and nature of what happens from a governance perspective, I was never in a boardroom of 18, when I joined the Board a little over a year ago, but today it's just 10 of us. 5 of us have been there for less than a year, you include Ed Garden from Trian, 6 of us have been there for less than 2. So a lot of new blood, a lot of fresh perspective, a lot of complementary skills and a dynamic frankly in a smaller room around a smaller table that I think is pretty healthy. I thought that as a Director, I know that to be true both as Chairman and CEO. I think we've been resetting the team at the same time, right? If you look at my 10 operating reports, my 10 direct reports, 5 are either new to the company or new in role. So there's been a lot of change there and other changes throughout the organization. We're driving a better level of accountability in terms of our monthly and quarterly cadences with the businesses, not just to get ready for an earnings call but to run the businesses with more rigor and more discipline. And our compensation structures are geared very much in the same way. Rather than let everybody, if you will, enjoy what happens or doesn't with GE as a whole, we're really paying folks on the back of the results of what they drive in their businesses. And that just helps us underscore what we're trying to do business by business, particularly with the emphasis that we're putting on cash. And then finally, I think some of you may have run into Steve Winoker earlier this week. Steve's our new Head of IR, a critical appointment for both me and Jamie to bring Steve on. You know him well. I think that's very much an important first step for us to improve the feedback loop with investors. Steve's partnered very actively with Tom Timko, our new Controller, who came from GM. I hope you see in our disclosures, in the insurance teach-in day and a number of other things that we're doing that we're trying to be more transparent, more candid and more straightforward and we're listening. And a host of things that I think are happening at the management level and in the boardroom are a function of that feedback loop, and we want to make sure we continue to strengthen that as we go forward.

You've seen this slide from late March, really no update with respect to how we see 2019 unfolding. We think we'll see decent low to mid-single-digit organic growth as we strengthen but reduce the overall scope of the portfolio. We should see decent margin expansion this year. Obviously a lot of emphasis on cash. Not happy with the fact that we'll see negative cash flow this year, despite the fact that we got off to a better-than-expected start in the first quarter, that guidance still holds and I think if you looked at the second quarter, as Jamie said I think last week at Goldman, that's probably going to be somewhere in the $1 billion to $2 billion range negative here in the second quarter. But all in all, I think as we have completed on one of our May operating reviews, year is pretty much as we had anticipated. But we have a long way to go, and we don't want to celebrate anything prematurely. Progress, but a good bit of unfinished work still lies ahead.

I'd like to talk a little bit more about how we are working and how we're changing General Electric. This was a topic of interest to a number of you last night. The slide is not in response to that but I hope this brings together a number of key elements that will really take you inside the last 8 months at GE and give you a sense of how we're operating. When I came in, one of the things I noticed straightaway is the customer was not central to all that we do and I know that sounds trite, you probably had 25 CEOs talk about the customer, but when I came in and asked about quality, which is usually the first thing customers care about, I got a lesson on the cost of quality and how we account for our mistakes. Interesting? But customers don't care, right? Customers want to have us experience GE the way they do, and there are a host of ways in which we can tilt from an accounting to an operating framework and do it outside in. That's underway delivery. Same sort of dynamic. I go to Milwaukee the first time and visit the Healthcare team. I ask about how we're doing with delivery, they teach me about SCOT, supply chain on time. The customer doesn't care if the supply chain is on time, they care about GE being on time, right? Easy, things to change, hard to make progress, but just getting that outside in look goes a long way, it's always worked in businesses that I've been a part of, it's going to work at GE. I'd say related to that, there are a lot of positive attributes in a long-cycle business. You end up, I think, at times with the benefit of time. You don't make use necessarily of every single day. Every single day of a quarter, every single day of a year, right? And certainly coming in, as I did October 1, I could see some of that quarter-end activity that is never healthy, I've seen it in a lot of businesses. We always try to bring that down. So part of what we're trying to do is really move away from that dynamic and make use of every day, what our friends at Toyota would call daily management, and make better use of every single day, and there are a host of examples that I'll share with you in a bit, that are evidence of that having real impact. Again, with an eye toward getting back to our industrial roots, driving better outcomes for our customers, driving better results for our shareholders. And then finally, one of the things that has amazed me being inside of GE is the scope of our ambitions. GE doesn't lack for ambition. But at times, I think we probably have been overly ambitious and it has robbed us of the benefits of focus. So another operating change that we're driving is a shorter list of truly strategic priorities so that we put our talent, we put our money in the most impactful areas within the business. Now how do you actually do that day-to-day? A lot of it just comes back to lean. And those of you who know me, understand my background in that regard, a lot of it's geared frankly in Toyota but a good bit of it comes from GE back in time. So there is a symbiotic dynamic here. I bring a fresh perspective but a lot of what I was schooled in still resides in the GE DNA and that gives me a lot of optimism and a lot of enthusiasm about what we're going to do. That will drive results. It's that simple. That mindset, those tools, that approach is how we're going to bring these priorities into a reality. A number of you last night at dinner were asking about culture and that's interesting. Don't often get to talk about culture with investors. This is ultimately all about culture. But we're not going to talk about culture. I'm not going to snap my fingers or preach from the Chairman's pulpit about the cultural change that we need. We're going to live it every day. We're going to live it the way we work, we're going to live it the way we drive results, and that over time, and it will take time, is what in my experience drives true cultural transformation and that too is what we're going to do at GE.

Let me quickly walk through the businesses. Power, as you know, our most challenging business. The greatest amount of work that we have ahead of us is in Power here in 2019, but there is a good bit to work with. When I talk to utility customers really around the world I'm encouraged by the fact they're pulling for us. They want us to do better. They want us back up on our feet. By the same token, that installed base is 7,000 gas turbines, 6,000 steam turbines, gives us a lot to work with. Again, we're in there every single day with our customers. That has value. We need to capture that. And while some people would suggest that the gas business is dying, there are certainly structural challenges afoot, but if we look at just what's under construction today, I think we've got a 25% increase in LNG capacity coming in the near future, some of that will find its way in the power generation, that's a good thing in the context of the overall global energy transition. But that said, there's a lot of self-help required here. Make no mistake about that, right? When we talk about daily management, there's no place that it matters more than here. And I think we're seeing signs of progress in that regard. Jamie and I were in Atlanta yesterday, with Scott Strazik in the Gas Power team. Really going through, again, our monthly operating review cadence. Really great to see how they're tilting just something simple, like their receivables collection process. Again, moving from that quarter-end sprint to a place where we're collecting receivables every single day. You look at where we are a year on, we went from 31% of our receivables collected at this time in the quarter to 52%. That may sound modest but it's the sort of progress, the early wins, that drive daily management adoption and then bigger results over time. Similarly, we're getting in deep with respect to how we sell projects. Defining the strike zone for what's an acceptable deal or not, let alone the execution over not weeks or months but years, as that project comes to fruition, we build that turbine, get it installed. A lot of work, a lot of handoffs, everyday matters. Even if it's a 4-year project. So this, again, is going to take a long time but I think I see early signs of progress in that regard and that's going to be helpful. We've talked here about the reorganization, it's an important part of not only the cost reduction and the margin improvement that we have geared for Power, but we not only have eliminated the headquarters operation but just as importantly, we're erasing the lines within the regions that really facilitated intramural skirmishes, if you will, between our equipment and our service organizations that didn't always serve the customer. So really looking at that entire value stream on the ground, close to the customer, eliminates handoffs and will give us an opportunity to deliver a better experience for the customer, and I think have fewer surprises at the end of those projects. So a lot more to come here but hopefully that gives you a little bit of a flavor for how we're engaging and what a lean transformation at GE will mean and translate into for the Power business.

Renewables. Our highest growth business in 2019. A real wave here on the back of the U.S. PTC lift. But here too, we've got a margin-enhancement story that's going to take a few years to play out. Not pleased to be at a breakeven level this year, a lot going on, we've talked about that at the Outlook Meeting. But nevertheless, even in a breakeven year, even with the pressures and the challenges we have at GE, we are continuing to invest in technology, both the next-generation platform in onshore wind with Cypress, Haliade-X, our new offshore platform will give us next-generation technology that really sets this business up over time. We don't have as much service revenue in Renewables as we do in some of our other businesses, that was a strategic decision taken, apparently some time ago, but Jérôme Pécresse and the team are hard at getting after that opportunity as well to remix and rebalance, to improve the overall Renewables portfolio. We're pleased with the early customer response that we've gotten from the move of our Grid business, out of Power into Renewables, a lot more commercial synergy there than we had in Power but it's early days. And here too, the lean effort I think is going to really accelerate. Back in March, had a free day down here in Florida, ran up to Pensacola, spent a half day, fortunately without the entourage, in one of the key Renewables facilities. Didn't know what I was walking into but I was delighted. A lot of good lean capabilities on the floor, standard work, visual management, kanban, the real stuff. The real stuff that matters. And after 3 or 4 hours, I was floating as I left, had a good session with the team, not a perfect factory, plenty of improvement opportunity. But something to build on. Dropped a note to the organization. Didn't really think that much about it, trying to communicate, let people know who I am and what I'm about, but I basically told the story of what I saw in Pensacola. I was shocked. Absolutely shocked. I must have gotten the better part of 50 e-mails. Lean practitioners throughout the General Electric Company, people I had never heard of, probably would not have ever otherwise met, right? Who said let's go, right? One of them said, it's just good to know that lean isn't a 4 letter word anymore at GE. Think about that. My response, of course, those of you know me, was, well, it's still a 4 letter word. Can't change that but we can use it in public, right? So I brought a good number of those people to Boston a few weeks back to talk about what needs to be different this time, right? I don't want to run a playbook that worked for me in a prior life, what's going to work at General Electric? And a good discussion, not only about the tools but more importantly about culture, right? And how we want to redefine leadership, that model with an eye toward redefining the culture. So a lot to build on here, not only Renewables but with respect that lean agenda.

Aviation. Many of you know this better than I do. An exceptional franchise. Powering 2/3 of the world's commercial departures daily. Think about that. An incredible footprint but it's not just there, right? We're building up our military business. Our freight business is outstanding. I had the opportunity last week, David Joyce and I were down at Memphis at Federal Express, we went to the midnight sort to see just how integral we are overnight to what FedEx does, to move 1 million, I think it's 1.3 million packages through Memphis, right? Phenomenal. Let alone the next day to talk about how we helped them think about and work together with an eye toward the next 10 years in their fleet. A lot of work here as we ramp LEAP in 2019, I think we've got 1,800 engines on tap, clearly moving well with Boeing -- or excuse me, with Airbus. Working closely with Boeing to safely get the MAX back up in the air. So, as we identified on our last call, that's a new watch factor for us. But all in all, I think technology, which has really been the bedrock of Aviation continuing to demonstrate real capability here. And that's on top of the GE9X first flight later this year and the recent win we had with the Pentagon on the ITEP, the next-generation helicopters or powering next-generation helicopters with the Apaches and the Black Hawks. But even here, one of our best businesses, lean transformation has real value. It was a year ago that I made my first trip to Evendale, outside of Cincinnati, and met with the lean team. And they talked about an opportunity they found just in terms of how quickly we go from doing work to actually billing the customer. There's a gap there of some double-digit number of days, I won't embarrass myself or the team, but that's cash, right? That's a real opportunity. I was back there recently, they've reduced it by 1/3 with expectations to cut it again. Those are the sorts of things that I think gives us real opportunity even in our better businesses to deliver better performance over time.

Healthcare. Clearly a business in transition. When we change the path from IPO here in 2019 to the sale of BioPharma business. Some folks have asked about RemainCo, we don't use that terminology at all. This is a very strong business. Even post the sale of BioPharma to my friends in Washington, right? This is going to be a $17 billion imaging business with mid-teens operating margins, with good low- to mid-single-digit growth opportunities organically, let alone I think inorganic potential over time, that we're really excited about.

And Kieran Murphy and the team, I think, are doing a very nice job here. We were with them 2 weeks ago, saw new suite of ultrasound programs that are coming to market over the next 12 months, excited to see how they're enhancing not only their spend, but their execution around new projects, and here too as they move from IPO to operating the business as part of GE, they too are getting on this daily management bandwagon. A shorter cycle business, maybe it's a little easier for them but they're driving the transition to the monthly close. A lot of businesses do that, we've moved away from that in recent years, Karen and his team are getting after that. And here too, a lot of enthusiasm for the cultural change, a lot of enthusiasm for what we're doing in lean. In fact they had a Healthcare-wide lean initiative last week where they basically took the week, had over 100 people, doing real shop floor kaizen, what we call action workouts at GE, driving sustainable change. It's a start, a lot to do.

And then Capital, as you know, we are in the process of reducing the size of the Capital balance sheet to make this a smaller, stronger part of the portfolio, the heart of Capital remains GECAS and to see GECAS and Aviation work independently, and work together has been fascinating from the inside. What we're trying to do here obviously is continue to keep GECAS strong. We've been shrinking many of the other strategic businesses within Capital, but our EFS business, while small, is critical to us with respect to certainly certain projects around the world for both our Power and our Renewables businesses. We have the insurance book here that we went through at the teach-in that over time we will manage and I think we've got a number of strategic options over time that will allow us to manage that in a smart way for shareholders. And here too, lots of opportunity just to get into a daily routine. We were -- Jamie and I were in Kansas City with the insurance team last month, not a business necessarily that thinks of itself as a daily management, a hothouse, there again whether we're talking about opportunities to improve pricing or do a better job with respect to claims management, the more operational we become, the better we manage that liability over time as we reduce not only the size but also the leverage levels at Capital.

And then at corporate, the top of the slide just captures what we're trying to do from a cost perspective. Clearly, when you're in the position that we're in, cost out is a good thing. But I wouldn't want to leave you with a headline here of GE is reducing the net corporate spend by 1/3 over the next couple of years, because I think that's not the headline. I think the real headline here is the way we are changing the way we run the business, the movement, if you will, at the center of gravity. From a business it was often run top-down through a number of functional pipes to a business that's going to be run from the bottom up with the businesses being the focal point. And that might sound subtle but it's really important at GE as we go P&L by P&L, not by segment or not at the top of house, so that we have not only line of sight on strategy, on organization and operations but returns and opportunities as we go forward.

There's a lot to do in this regard. It is quite a change for a number of the folks in Boston and elsewhere but I think it's been very well received by the businesses and over time as we've put some of the cost and the responsibility in the businesses, we'll see further reductions but more importantly I think we're going to have more energized, more accountable businesses across the GE portfolio.

So let me just wrap up basically where I started. Again, this is a multiyear transformation. It's one that requires a lot of perseverance, a lot of grit and commitment on the part of the GE team. I'm encouraged 8 months in by what I have seen in that regard. It's not as if I had to convince anybody we had work to do, that we had issues to tackle. It's been by and large straightforward to have that conversation. It's really what do we do and how quickly can we move. While we have issues, we certainly have opportunities. Again, any time you start with having that sort of backlog, right? Over $350 billion, over half the revenues in the aftermarket in that proximity to what customers are doing and grappling with every day, it's hard not to be optimistic about that. But we do need to change the way we operate, right? It's not enough to have a good last couple of weeks out of a quarter. We need to make every day count and particularly in 2019, again, because it will be a game of inches.

So I hope that's helpful. Some perspective there in terms of how we're running the business. Obviously we'll be happy to turn it over to you with whatever questions you may have at this point.

QUESTIONS AND ANSWERS

H. Lawrence Culp - *General Electric Company - Chairman & CEO*

[Steve?]

Unidentified Analyst

So just on kind of a quarterly cash flow sequencing, I mean you guys have made some comments about what's expected in the second quarter. When you think about the fourth quarter typically kind of lumpy, given the guidance for this year and kind of the moving parts there. You have a tough comp there in the fourth quarter, is it how we should think about it? With the progress payments and the payables benefits you had last year. I mean is that the right mindset or is it more smoothed out over the course of the year?

H. Lawrence Culp - *General Electric Company - Chairman & CEO*

Well, I think we're still going to have that backloaded dynamic, right? It's not going to be as pronounced. I think we're going to see pressure through the year. So I don't -- but I don't think about it as necessarily a tough comp, I just don't like that hockey stick dynamic and that, again, getting back to quarter-end, year-end sprints versus daily management. I think what you've seen historically from us is evidence of that in whole host of places. We'll dial that down but we're not going to be able to have I think material effect on that, [Steve,] in 2019.

Unidentified Analyst

And okay, and then just one question on kind of the businesses and Power. Siemens was here on Monday, talked about how there's pretty significant changes going on structurally with competitors over in China. Have you heard anything from your JV partners of yet regarding any changes like that and with Siemens and Mitsubishi continuing to invest, you're saying there's going to be a pretty solid gas market out there. How do you plan to kind of compete, while others are investing, when your R&D is admittedly at 2% or whatever it is? I mean does that R&D number have to go up to kind of execute on some of those project flow that you think is going to come?

H. Lawrence Culp - *General Electric Company - Chairman & CEO*

Well, a couple of questions there. I know Joe here -- Joe was here Monday. The rumors about Harbin and Dongfeng have been out there for years. So I'm not sure that's a headline newsflash. We'll see how that plays out but I think we -- our team on the ground has known of that possibility for some time. I think our view is that China is important, but China is not what we are banking the turnaround in Power on and particularly in Gas Power. With respect to innovation, I think we will continue to invest in innovation. There's no business in GE that isn't basically rooted in technology so we will look to be smart not only in those investments but what we do from a service perspective, right? So we've got a better value prop, be it in China, be it here in the U.S. and anywhere else where gas is going to play an important role in the energy mix going forward. So I don't see that as some sort of pressure or headwind, frankly, I just see that as the way you run a business.

Unidentified Analyst

Can you compete in this business at 2% R&D?

H. Lawrence Culp - *General Electric Company - Chairman & CEO*

I don't know where you get that number.

Unidentified Analyst

10-K.

H. Lawrence Culp - *General Electric Company - Chairman & CEO*

Over time, right, we are going to innovate as we have with the age, right? As you know we've got a very strong offering at the high end right now. We will continue to do that both in the business and frankly with the shared technologies coming out of the GRC, shared between Power and Aviation. But, [Steve,] I think you know me well enough, I've never been big on managing by ratios. I think when you manage by ratios, you end up managing by ratios as opposed to project by project, program by program, where you really vet those individually rather than just if you will manage by the numbers. And that's part of the change, part of the process at Power. And the rest of the portfolio frankly.

Unidentified Analyst

Just a quick question from the audience. So we know there's a $4 billion contribution to GE Capital this year. For 2020 and 2021, should we be assuming something in the range of $2 billion to $3 billion or any comments you want to make on that?

H. Lawrence Culp - *General Electric Company - Chairman & CEO*

Yes. I think what we've said before is we've got the $4 billion contribution this year and it will be meaningfully less on a go-forward basis. We haven't scoped that within that -- in that way previously and we're not going to change our framing of that today. So...

Unidentified Analyst

And, Larry, so maybe a question on Capital. You know the investors are obviously not keen on the scale of that business. If I look at the asset base of capital, its full cost, it's only dropped by sort of $3 billion or $4 billion by the end of 2020 ex liquidity. So how quickly in the medium term do you think that capital asset base can be pulled down?

H. Lawrence Culp - *General Electric Company - Chairman & CEO*

All right. Well, I think that's a good way to frame it, [Julian.] Because what we're really trying to do, again, in the short term is be very clear about priorities for GE. We needed to bring the leverage ratios down on both balance sheets, and we need to get Power back up on its feet. I think as we look forward, with those boxes checked, if you will, we're going to have optionality as to how we play forward over the medium to long term with Capital. So I don't think we're going to try to prejudge that, let alone do too much signaling early on. I think we hear investors in that regard. That said, there are aspects of Capital that are valuable. Are they more valuable outside of GE than as part of GE? Well, we'll play that over time. I think you see a team, I think you see a board very committed to shareholder value and the best path for that over the medium to long-term isn't necessarily set and clear, but that very much is the objective and as those opportunities and options materialize, I think folks should rest assure, we're going to be quick to seize them. But not prematurely and not at shareholders' expense.

Unidentified Analyst

And how comfortable do you feel with the power backlog today. You know it's $90-something billion, you've been in the CEO role 9 months...

H. Lawrence Culp - *General Electric Company - Chairman & CEO*

Almost 8. But who's counting?

Unidentified Analyst

Almost. How many reviews, well -- how good do you feel about the way that backlog has been kind of parsed out internally, the contract quality and so on?

H. Lawrence Culp - *General Electric Company - Chairman & CEO*

Yes. I feel very good about the backlog, right? You never take any customer necessarily for granted but the new unit volume, these are not casual commitments on the back of customers. Clearly the CFA book is something we have combed through, as have others, right? It's been a priority for the audit committee, Jamie, Tom Timko, the new finance team has been through it, Scott and his team has as well. Doesn't mean customers can't take a different decision, right, tomorrow. But I think part of what we were getting at -- if you just, ma'am, could you just -- I want to just make an eye contact with [Julian] here. Part of what we're trying to get at is a level of candor and transparency with the businesses and not always through the formal channels, right? Where we have these operating reviews and these deep dives, and folks can put out, can share tough news, bad news, right? I think that's part of what we have to deal with, part of what we are addressing, in power in particular, and that too is part -- that enhanced candor is part of the reason I have the confidence, [Julian,] that I do. But we don't take any customer for granted.

Unidentified Analyst

So one of the concerns I hear from investors is that you can't get enough cost out of power to get to cash positive. You obviously have the guidance out for 2020. So what does it take to get there? Do you need a better market? Do you need to take more than $800 million of base cost that you've talked about? What do you need to do to get there?

H. Lawrence Culp - *General Electric Company - Chairman & CEO*

Well, I don't think, to be clear, we have any expectation of the market improving, right? Every time that we're out I think we've been consistent talking about a 25 or 30 gigawatts framework, over time it might bump up and down but we're not looking for some market recovery. We just don't think gas is going to 0 in the near to medium term, right? So it really puts the onus on us to continue to innovate, continue to serve. So that we earn our new unit and our service volumes, while we dramatically fix the cost structure. I think we're making tremendous amount of progress. We -- again, we were in Atlanta yesterday. We're now 1,000 heads in Power just this year, okay? And we're not done. There's a whole host of areas that also hurt both margins and cash, again, some of it's inheriting stacks related to Alstom and deals and projects in the past, frankly some of it's just us being late to adjust the cost structure in light of where volume is. In addition to all the ways the dollars leak out of the business, given the way we've run the business over time. Remember, what Russell walked into a couple of years ago -- what Scott and Russell had back in the fall was a set of Power businesses serving different applications, manufacturing different products, that was managed at this level. Can't do that. At least I don't know many mortals who can, right? You had to break it down into its various components to have a line of sight on these various issues. I don't want to get weedy on you. But it's that over time that gives us the opportunity I think to address a number of these cost issues and, again, why we think we can get this business to a place where it's profitable and positive from a free cash perspective. But we need to demonstrate that over time as opposed to just talk about it.

Unidentified Analyst

And then you mentioned that you felt good in your recent May review around the businesses themselves, but you manage a big company with large capital projects, you've got a lot of exposure to China in businesses like Healthcare. So maybe talk about the current environment with the new tariffs that are out there, you're seeing any sort of change talking to customers in terms of order pattern?

H. Lawrence Culp - *General Electric Company - Chairman & CEO*

Right. I don't think we have seen, [Andrew,] anything materially different in the demand environment in the last couple of weeks, right? Or the last week, as we've gone to list 3. I think GE has been a consistent proponent over time of free and fair trade, that has never been more true than today. I think just given some of the headlines out of China from the last 24 hours, our concern isn't the cost pressures that we're going to see from the tariffs, I think we by and large have that in hand, it's really what might happen, what are the more subtle repercussions that we could see. We don't really -- we can't point to anything at this moment, our Healthcare business in China, for example, got off to a very good start. But it is something we are watching very carefully. [Deane?]

Unidentified Analyst

Hey, can we go back to Power and then specifically the subsector that you created, the Power portfolio. Give us an update there, specifically on the timelines and expectations. And then a second question would be -- and I don't think this was a rhetorical point that you made, but to say that there is a shorter list of priorities. What might have fallen off the list, or have been taken off the list that you could share, maybe -- you touched on those, so you can just list some of them as well? So 2 questions.

H. Lawrence Culp - *General Electric Company - Chairman & CEO*

Sure. Sure. With respect to Power portfolio, in fact we're going to run out of here shortly, head back to Atlanta and have the review I was talking about with Russell and the team. Effectively, the Power portfolio, now that we've moved Grid over to Renewables, is 3 businesses. It's our nuclear JV, it is our steam business and it's what we call Power Conversion, right? Both the nuclear and steam businesses are good steady businesses. We've got, I think, opportunities there to manage both better. We're putting the service business that had been part of Power, supporting steam with steam, so that is -- that would be a more holistic, more integrated P&L. Those are businesses where we have, I think, modest expectations for improvement in the short to medium term. Power Conversion is a different set up. I mean it's a business that is meaningfully negative from a margin and from a cash perspective and that's a more significant deep turnaround that's required there. I think I've seen some of what ails that business in some other local GE businesses that I used to compete with. So I think we understand what we need to do. It's just going to take a little while to get that business back to being, if you will, a string of pearls, serving customers locally as opposed to something that we manage globally from on high. We have work to do there, that a little bit like Gas Power is going to be a multiyear transition before we've got it back to breakeven. But everything I've seen, [Deane,] gives me confidence. More than anything that we're not doing, if you will, top of the house at corporate. What we're really trying to do, Deane, is move away in the businesses from flashing a page of 30 metrics and leaving anyone with the impression that we're managing -- actively managing 30 discrete initiatives, right? There's a difference between reporting and managing. And the tilt -- part of that operational tilt is really geared to making sure that we're very clear about we're actively -- what we're actively managing, what those targets are, big or small, and how are we tracking accordingly. We might watch some other things to see if we're within control limits, but it's an important distinction. So that's really what we're trying to do internally to focus.

Unidentified Analyst

Larry, with that, we are out of time. Thank you very much for being here today.

H. Lawrence Culp - *General Electric Company - Chairman & CEO*

Thank you. Thank you.

Unidentified Analyst

Just a couple of quick comments. First, thank you all for being here for the entire week. Really appreciate your participation. As I mentioned earlier, you should have a very, very short survey in your inbox, if you don't, please e-mail me. I'm happy to send it to you. Try to get that back to me by Friday, if you want any input into next year's conference. With that, everybody, have safe travels, great Memorial Day weekend and thank you for being here.