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GE - General Electric Co at Sanford C Bernstein Strategic Decisions Conference

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PRESENTATION

Douglas Stuart Harned - *Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst*

Okay. Good afternoon. I'm Doug Harned, Bernstein's aerospace and defense analyst. Very happy to have with us today Larry Culp, the Chairman and CEO of General Electric. Larry's going to give a short presentation here. Then we'll go into a fireside chat format. And you can -- please, if you have questions, pass them forward.

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

Well, we'll hope we have a short presentation and get to the fireside chat and your questions here in a bit.

I think what we wanted to do was really just remind those of you who have been following our story here in 2019, let alone anybody new to GE today, that the way we think about the road ahead, first and foremost, really is it's a multiyear transformation. We've got some great franchises in Aviation and Healthcare, some work to do in our Power businesses. But really, whether it be in the businesses or at GE at large, we know we've got work to do here in '19. We won't finish that work in the calendar year but we're excited about where we're going to take the company.

I think our excitement is rooted in a number of things, not the least of which is the size and scope of our installed base really across the portfolio, obviously a result of the product and technology leadership we've enjoyed in many of our businesses for years in addition to the way we support and service that installed base. That installed base drives over half of our revenue on a strong, recurring, profitable basis and I think gives us not only ballast for any storms that may come economically in the years ahead, but as we work through this transition, staying close to customers, being able to do that profitably is a good place to be.

And I would say third, part of what we're doing operationally and, I think, ultimately, culturally is really transitioning the way we run the business day in day out to be, if you will, more of an operating-oriented company, business-by-business from the bottoms-up, not top-down. We think that helps us unlock real value at GE over time both in terms of helping us grow share profitably but also to accrete margins and improve our overall cash generation.

If we're on a multiyear trip -- journey, it obviously starts in 2019. And again, forgive me if you've heard this before but we just wanted to make sure we're all on the same page. This is very much a reset year. There's a lot to do within the businesses. Certainly, when we look at the overall leverage levels, both on the industrial balance sheet and at capital, we want to bring those leverage levels down. That's our first priority this year so that we're really putting the company on firmer financial footing. And that, coupled with running the businesses better, particularly, fixing our Power businesses, is the priority set for 2019. And I've got a slide here in a moment that will frame a good bit of the work that we are working on within Power. And I think in the midst of all of that, we are going to transform the way that we actually work, the way we run these businesses day in day out.

But it's not just about the balance sheet and running the businesses. I think there's a good bit with respect to the way we have changed the governance model a GE. When I joined the board, we were a board of 18, on its way to 12 today. When we get together, it's 10. 10 of us, 5 had been on the board for a little over a year or less and really only 1 director is approaching a decade of service. So it's a smaller board. We get in a smaller room. We sit around a smaller table. A lot of us are obviously new, but a host of fresh perspectives and everybody, I think, is tremendously engaged in a constructive, collaborative way to find the best path forward to unlocking the value that we see at General Electric.



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Related to that, obviously, there's a good bit of change with respect to the team at GE. If you look at my primary direct reports, again, 10 in number, half are either new to the company or new to their current roles. So that team has been reset a bit. We're coming together to drive the company forward, certainly making sure that, that is cascading where appropriate down through the businesses, that the business leaders are compensated for what we need most, and that is, again, accretive growth and better cash flow performance. It's not all about incentives, but incentives matter a lot. And the more that we can help them deliver that in terms of the operating capabilities, the better off that we think we are.

And I think certainly with Steve Winoker, no one -- no stranger to any long-time attendee to the Bernstein conference, as our new Head of Investor Relations, a number of other things that we're doing. We really want to make sure that we are strengthening that investor feedback loop.

And whether it be some of the changes in the board room, the announcement we've had relative to issuing an RFP with an eye toward a potential auditor change, let alone the enhanced disclosures you've seen in our 10-K and our recent 10-Qs and in other sessions like these, hopefully, you know that we are listening. We're trying to be responsive so that we really have shareholders' interests at heart on a day-to-day basis.

It's not all about '19, but we have signaled that this will be a challenging year from a free cash perspective. We think we will have a challenging quarter here in the second quarter to boot. We've talked about our free cash being negative in the second quarter to the tune of \$1 billion to \$2 billion. No change there. but I just want to make sure folks understand that as we look to improve that in 2020 and to put that in positive territory next year with acceleration into '21 and beyond.

We could spend all day on this slide, I promise I won't do that. But what I saw when I came in 8 months ago were a handful of things that were quickly translating into operating priorities. The first, making sure we truly have the customer at the center of all that we do. Quick example, on-time delivery. We all expect it from Amazon or whoever we deal with as consumers. Our on-time delivery could be better at GE. There's a host of ways in which we can do that, but it starts with measuring our on-time performance the way our customers would, not necessarily the way we might if we were looking in the mirror.

Part of what we want to make sure we're doing is really driving operational performance as opposed to focusing on our financial reporting. And what that really means is really tilting the organization away from quarter-end sprints, and you probably have seen that in different ways from us over time, to what I call daily management, making sure the first day of the quarter counts as much as the last day and managing an industrial business in that fashion every day through the course of the year.

And I would say finally, what we want to make sure we do is really focus GE's phenomenal ambition. I've really been struck by that over the last year being associated with the company. But at times, we probably are more ambitious than we should be, meaning we might, at the business level, have 10 priorities and think that we're making progress when we'd be far better served focusing on half as many and making real progress. I think the way we do this, at least in my view, is getting back to some fundamentals based on just good old-school lean techniques. It's the way we're going to drive results, and ultimately, I think it's the way we transform the General Electric culture, building on what's strong about our team and our culture but making it better, again, with real value creation in mind.

You probably know this portfolio well, \$85 billion, strong in terms of revenue. Again, over half of that in the aftermarket. Really, our 4 core businesses today, Power, Renewable, Aviation and Healthcare. We think our exposure in energy, Aviation and Healthcare really tap us into good global markets that, come what may in terms of the external environment, will continue to be markets that matter, right? Where we're well positioned both in terms of our technology leadership and our day-to-day relationships with customers. Doesn't mean any of these businesses are optimized. All of them have real improvement opportunities as we look to improve our overall cash generation in the years ahead.

There's a lot that's said about GE at corporate. We're really trying to change the way we operate, less top-down, more bottoms-up P&L-by-P&L. But that said, when you look at what ties GE together, what I call the mortar in between these 4 bricks, we really have strong capabilities at corporate. If you look at what we do from a digital perspective and additive, bringing new technologies not only to our own operations but to our customers. Certainly, our Global Research Center is a key part of that, driving advances in science, like materials science for example, that really benefits our businesses in that instance both at Aviation and in Power. And our global growth organization is a key part of making sure that GE is well represented around the world on a local basis, be it with governments, be it with large customers, so that we have a footprint second to none. And I don't -- well, I think I hit on all 5 of those.



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And from a deleveraging perspective, one of -- 2 of the aspects that we've highlighted are our stakes in Baker Hughes and Wabtec. Positions that help effectively fund that \$25-plus billion of debt reduction on the industrial balance sheet that we see over the next couple of years. Timing, certainly around Baker, we want to make sure that's done in an orderly way. Wabtec is something that we've already taken the first step on. But again, opportunities here to put the GE balance sheets back where we want them.

And then I would just wrap up here with a deeper look at our Power business. When we talk about Power, we're really talking about 2 businesses, as we discussed: in one, our gas power business, where we're a leader in gas turbines; and then what we call our Power portfolio, where we have our power conversion, our nuclear and our steam businesses. We've really broken the segment down into these 2 groups to facilitate not only cost reduction at that headquarters level, but again, to underscore the opportunity and the imperative to really run them P&L by P&L from the bottoms up.

As you can see from the outlook here, in 2019, we're going to see revenue pressure. We'll be down high single digits. And while we're not thrilled about the negative free cash flow, we think that we are making progress. Spent a good bit of time with both of these teams last week in Atlanta, for example. And we like the underlying operating trends that the teams are working on. That needs to translate to you in terms of better performance both on the income statement and the cash flow statements. I think that comes over time.

A good bit of cost coming out of this business, \$800 million last year. We've already seen 1,000 associates depart already this year. And you may have seen some of the press coverage relative to some of the consultations that are underway in Europe.

A lot to do here, a business that we think we can manage a lot better. And certainly, when we move from a meaningful negative to a positive cash position here, we think we contribute to that unlocking and that creation of value.

So with that, let me put the slides away and we'll get into a little bit of Q&A.

QUESTIONS AND ANSWERS

Douglas Stuart Harned - Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst

Great. I have to say, listening to your description of the things you want to do here, it just struck me. A conversation I had with an aerospace CEO a few weeks ago, and I told him you were going to be here. And he said, "Well, you should ask him why did he take that job?" And I'm curious because when you looked at GE and decided to do that, obviously, a lot of challenges. What attracted you to that?

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

The challenges.

Douglas Stuart Harned - Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst

Seriously?

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

No, I'm sure like a lot of us, right, I grew up admiring GE, studying GE, benchmarking GE, recruiting from GE, competing ever so slightly. I went in the board room a year ago merely as a director, eyes wide open. But I just had a strong view then, and it was stronger on the 1st of October, that this is a considerable industrial challenge, maybe the challenge of my generation. The challenge basically being about unlocking the value that is inherent, I think, to this business.



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If you look at that installed base across these end markets, a lot of people would kill to have that day-to-day proximity to customers in ways that matter, right? That doesn't mean that we have always put our best feet forward. There are a whole host of things, we talked about a number of them, that I think are going to operationally and strategically help us over time. And to have the chance to be part of that, to leverage some of the things I've done over time, to build the team to help move this forward, I mean, how do you say no to that?

Douglas Stuart Harned - *Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst*

Well, now it's been 8 months. When you look at what you signed up for, what's different? What surprised you? What's perhaps better than you thought? What's more challenging than you thought?

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

Well, the good news -- again, to be clear, I didn't take this job -- I didn't join the board thinking I was going to be in this position. But there is an advantage so that when you walk in several months later, there's not much that surprises you. I would admit that things happen more rapidly when you're there every day, right? It's more intense, but it doesn't mean that it's different.

I would say that, positively, I've really been struck by how strongly customers are pulling for us. I would have thought that, given where the company was, I would have heard more in terms of concern, maybe even complaints. It's really been the opposite. Not that we don't have improvement opportunities, but I found our customers very keen to help where they can, always encouraging. We're rooting for you, we need you. That's a good place to be at this point in a transformation.

If there was a negative surprise, it's probably just seeing up close where some of our softer spots have been in Power. I shared with some folks earlier that, coming from a lean background, it put me back a little bit to go to our Greenville, South Carolina plant last summer and have the team regale me with a really good lean production cell that had just been implemented. They did a very nice job. But just, it really stunned me that be there in the summer of 2018 and have such an important plant at GE beginning its lean journey or re-beginning its lean journey. So that's an opportunity, but those are the sorts of things that you don't fully appreciate in the board room.

Douglas Stuart Harned - *Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst*

And you talked about the 4 businesses and somewhat of a fabric that connects them. But if you look at this, what is the strategic rationale for keeping those all together under the GE umbrella?

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

Right. Well, clearly, given where we are at this point in the journey, there have been a number of businesses that we've moved out of. I would argue that you see a bias here toward retaining the longer-cycle businesses, the better-performing businesses. That core 4 really is, I think, the industrial heart of GE. There are a host of things that the energy businesses will share with Aviation, Healthcare a little less so. But this is really, I think, the essence of GE and these are the businesses that are going to help us get through this period, right, where we want to make sure that the shared balance sheet is delevered while we get back to better fundamentals running the businesses day in, day out.

Longer term, a lot of speculation in terms of how do we maximize value. I think what we're trying to do is make sure that we strengthen GE as it is today and position ourselves with more optionality to, frankly, play offense both organically and inorganically over time.



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Douglas Stuart Harned - *Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst*

A couple of things that seem to have some connectivity here, so the GE's research center and then also GE Capital. Now when you think of on the research side, how -- I mean, often, you'll see -- we've seen a lot of sort of corporate research activity be broken up in the past. How does the GE research center really help across multiple businesses?

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

Right. Well, one of the things that the senior leadership team and I have been talking about is how do we do more of what we've done so successfully in Aviation? And this is really where I give David Joyce, the CEO of GE Aviation, whom I know you know well, a lot of credit. David takes his team up a couple of hours north of here on a regular quarterly basis, where the research group and the Aviation leadership team are talking in great depth over a couple of days as to where technology is going and where the business needs are going.

So it doesn't -- the GRC doesn't exist in some wild blue yonder, right? It's integrally linked strategically with the fate of the business. I wouldn't say our other businesses have done as much of that over time. So all the -- we've talked about David's model and that the other businesses have all been up there this year already with their teams beginning a similar dialogue. And I think that makes -- that helps us ensure that corporate R&D spend really is invested with the businesses in mind as opposed to, if you will, science projects. You always want a little bit of that, in my view, but the closer that we're tied to business needs and the technology trends in the other direction the better off we're going to be.

Douglas Stuart Harned - *Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst*

And if you look at GE Capital, what its role in the future?

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

Well, if you look at GE Capital today, right, it really is 3 pieces. We've got GECAS, which, as you know, a phenomenal aircraft and engine leasing business. That's a good business in its own right. Clearly has meaningful strategic linkage with our Aviation business. We have our insurance obligations, which are really in a runoff position, so less strategic, but it is part of that balance sheet. And then there's a small sliver of other parts of capital. That's really where we have been shrinking the size of capital. But our energy finance services business is an integral part of how we begin projects both in Power and in Renewables, right? They help provide and organize some of the seed capital for projects around the world. So it's a smaller GE Capital, one big piece, one small piece strategically linked to the businesses in addition to the insurance liabilities that we're working to manage down over time.

Douglas Stuart Harned - *Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst*

The role of GECAS as it ties into GE Aviation is something that others don't have. And do you foresee any changes in that role, in the relationship between GE Aviation and GECAS over time?

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

Well, I think what we want to do is we want to make sure GECAS a strong, right? And the businesses, in my view, work very well together. One is not subsidizing the other. It's -- if you will, it's arm's length in terms of the relationship. Lots of rumors in terms of what happens to GECAS over time. I think we've acknowledged in other settings, we get a fair bit of inbound activity. I think what we've said is that GECAS is not for sale. As we move forward, right, I think we want to make sure that we're open to the best ways to create value in and around this portfolio. But today, we like GECAS, and we like the added help we get at Aviation.



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Douglas Stuart Harned - *Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst*

Now moving far away from that. I mean, there were plans for a Healthcare IPO earlier until the BioPharma sale back to Danaher, right?

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

Right.

Douglas Stuart Harned - *Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst*

How should we think about the remaining Healthcare businesses? Where -- what's the growth potential? How do you look at Healthcare now?

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

Yes. Well, I think that if you just step back, when we first talked, I think, last June about the IPO for Healthcare, it was really geared toward trying to strike the right balance between generating proceeds to help delever the overall balance sheet and retaining equity value for the GE shareholder. I think as the year played out, what we found was a way to shortcut to that place. And with the BioPharma sale, which we hope closes late this year or very early next year, we sell a small part of that business for 7x sales, which generates just over \$20 billion of value for us. And that helps dramatically, right, delever that balance sheet.

But what we're left with, if you can believe it, is a \$17 billion Healthcare business largely in and around imaging. It sits at the center of precision health, a business that today is mid-teens at the operating level, good cash conversion, which we think is a mid to -- or excuse me, low to mid-single-digit grower over time and should continue to accrete margins with that good cash conversion. So we think it's a heck of a business. Again, lot -- I think there are a number of strategic options that we have in and around Healthcare over time, but being able to retain so much of the business, improve it and grow it, we think is another way in which we're going to be unlocking value at GE.

Douglas Stuart Harned - *Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst*

Now if you look overall, it's hard to imagine a day where you don't see some news on trade war with China. Can you talk about your overall exposure to China, how you view the trade situation there now at GE?

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

Right. Well GE, clearly a global company. Today, we do about 7%, 8% of revenue in China with the 4 businesses that I highlighted. I think we have a long-standing public record of being for free and fair trade. So we're hopeful that there will be some sort of resolution to the obviously live debate between the U.S. and China.

We think that some of the concerns here that are clearly front and center around access and technology transfer, IP protection are real, and we'd like to see some sort of arrangement in that regard. But we really haven't seen more -- or we haven't really seen any negative impact on our businesses beyond the 3 -- or call it \$400 million to \$500 million of pressure that we see from tariffs this year which was baked into our outlook for 2019. I think what we're really keeping our close eye on is what happens on the ground, is are there any more subtle impacts on our daily trading in China should things get more heated? So again, we're hopeful, we're watchful, and we'll see how things play out.

Douglas Stuart Harned - *Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst*

Now you've said that GE currently has too much debt and that delevering is a priority. When does the time come to bring the leverage down? How are you looking at that trajectory?

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

Well, the time was October 1 of last year at a minimum. We're past due, if you will, in many respects. But I really like the progress that we're making here. What we said on the industrial side is we want to be at or below 2.5x net debt-to-EBITDA. If you look at where we are today with \$55 billion of net debt, that needs to come down dramatically. If you look at just the \$25 billion we think we need to get there over the next couple of years, we'll get \$20 billion of it from the BioPharma transaction, and that's not counting the nearly \$15 billion that we could raise from the Baker and the Wabtec stakes, right? So \$35 billion-plus of sources. We want to make sure we have a cushion. We think we're well positioned to do that. And again, on the capital side, a little bit of a bigger balance sheet, targeting 4x debt to equity there. With the asset sales that we highlighted, we think we're going to be getting there over the next 1.5 years, 2 years.

Douglas Stuart Harned - Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst

As you move through that, is there anything you're thinking about in terms of things you need to bring in? In other words, pieces to add to your portfolio to complete on the acquisition side?

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

Well, as some of you know, we have a little bit of experience...

Douglas Stuart Harned - Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst

You've done that before.

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

Playing the inorganic game offensively. We have opportunities. I wouldn't say we have imperatives in that regard. But that said, that's really merely an intellectual exercise for us today because we do have to see through these asset disposition programs. We do need to sell off a few more of these businesses so that we've got a balance sheet that would allow us to play offense. The sooner we get there, the sooner we can augment what we're doing organically with some inorganic moves. Again, our priorities there would be Aviation and Healthcare in some form. We're not going to talk names. We're not going to talk about structures. That's not our reality any time soon. But I think we're very keen to get there as quickly as we can.

Douglas Stuart Harned - Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst

I'd like to switch over to Aviation. I mean that's been a great business. What do you see that could be better there?

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

Well, it is a great business, right? And David Joyce made me take a Hippocratic oath when I came on board, right? First, do no harm because it's such a wonderful franchise. But when you sit with David and the team, you really, I think, at least for me, appreciate how strong really over generations our commitment to technological leadership has been. And that we just can't lose, which is why we spend, call it, high single digits of sales in R&D and engineering.

Clearly, as we ramp LEAP, you see evidence yet again. We're going to have the first flight for the 9X later this year. Big win with the ITEP program on the military side of the house to repower the Blackhawks and the Apaches. We never want to take that for granted, right? We've got to earn that and support that every day.

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That said, I think as we look at opportunities to be more productive with respect to cost, to be more efficient with respect to capital, to improve on-time delivery. Dennis was here yesterday. I know he said some good things about CFM. We want to make sure, as they ramp, that we're there in lockstep. So there are a host of things that a great business can do better. And we think, over time, that is part of that value unlocking story we hope to write at GE.

Douglas Stuart Harned - *Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst*

And Dennis did talk about CFM, but one of the challenges has been delivery schedules and...

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

He told me that.

Douglas Stuart Harned - *Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst*

Very -- I'm sure he did. And Airbus has talked about it, too. And so when you look at this, can you comment at all on what the challenges are to get to that delivery rate up so you're able to meet the schedules at both Boeing and Airbus?

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

Right. Well to be clear, we are on schedule at Airbus, have been for some time. We have caught our demands at Boeing. So the challenge from here is really to keep pace as we step up. And we think that's largely on us, right? It's a high-class challenge to have, to have such an in-demand product with 2 major customers and obviously our carrier customers. To me, it's really about working with suppliers to make sure that the supply chain is well tuned to what we're going to do and to make sure that we've got the flow within our facilities. And that's why it was built. That's why there were those step-ups.

Douglas Stuart Harned - *Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst*

Yes, and that's what I was going to ask you. Because if you -- the challenges there seem to be in that in the supply chain, castings and forgings. And both you and Safran have had to deal with this. And so is this something that you see you're past the heavy lifting now? Or is this still really a set of challenges to make sure you can get those LEAP deliveries as rate goes even higher?

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

Yes. Well, I think that's the challenge, right? And I'm not a big fan of laying off our performance issues on anybody, be it a supplier, be it a customer or anyone else. It's one thing to be current at these levels. But as the rate goes up, as both intend to do, we need to make sure that we are synchronized with our supply base, manufacturing well within our own 4 walls, right, to make sure those deliveries are in lockstep.

Douglas Stuart Harned - *Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst*

And then what really drives profitability for you and other engine manufacturers is the aftermarket.

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

Yes.



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Douglas Stuart Harned - Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst

How do you see that growth looking over the next few years? Since that will be probably the biggest driver of profits as you indicated.

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

Very much so, right? And traffic utilization really gives us, I think, a meaningful tailwind in that regard. We are in the midst, clearly, of a platform transition with the narrowbodies. That will create a little bit of margin pressure. But I think we are of the view that, given some of the opportunities, some of the productivity programs and the like, we can be in that 20% operating margin range that we've talked about as we work our way through the -- some of the margin headwinds that the LEAP ramp will present for us.

Douglas Stuart Harned - Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst

And then on the grounding of the MAX. I mean, how has that affected your performance? You're I think delivering at the same rate -- or the same planned rate. But what impact has the MAX grounding had on you?

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

Well, I think we share Boeing's commitment to dealing with the current reality and working thoughtfully and deliberately toward a safe return to service. I think for us, it's really put some modest cash flow pressures on us here in the short term just given the -- some of the interruptions, probably \$200 million to \$300 million of cash headwind here in the second quarter. I'll let Dennis speak for where we go from here as I know he did yesterday at this conference. But hopefully, as we get into the back half of this year, we've got line of sight on a return to service, normal production and service cycles. We think we've got a role to play, particularly with the grounded fleet, making sure we're accelerating service and maintenance activities so that as those planes are returned that everything goes smoothly.

Douglas Stuart Harned - Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst

And GE9X, on track?

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

On track, knock-wood, right? We're looking forward to the first flight this year and service next.

Douglas Stuart Harned - Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst

And then going one step beyond, the new midsize airplane. Clearly, this is the big new program sitting out there if it happens. Under what conditions would GE want to play on that? It's a CFM -- it would be a CFM engine. But what would make that attractive or potentially unattractive? How do you decide the [NMA]?

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

Right. Well, I think both we and our partners at Safran have talked about our interest and our ongoing dialogue with Boeing in this regard. Some of those discussions, we probably want to keep between partners and between the customer. But really, what we want to do is look at the long-term economics for GE. And participating in that program is something we're excited about. We want to be part of that program and are hopeful that things play out in that fashion. But we want to make sure that it is additive to the equation at Aviation.

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Douglas Stuart Harned - Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst

Then if we switch over to Power. Now can you give us a sense, as you've sort of looked at this over the last couple of years and you look at market challenges versus company-specific challenges, how do you think about Power? How do you divide those 2 things?

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

Well, I actually divide it into 3 pieces in thinking about, if you will, the external versus the internal.

I would say first, we've tried to be pretty candid about the fact that demand, at least in our Gas Power business, has taken a step down over the last several years, and we were slow to adjust our cost structure accordingly. We don't think gas is going away, but gas is going to be used differently. It's going to be used less, and we need to adjust our cost structure accordingly. And I alluded to some of the things that we're doing in that regard. We were just slow to that. But the only thing we can do is try to -- is to make up for lost time.

I'd say secondly, with the Alstom acquisition a few years back, we added capacity. We added some challenging projects to our business mix at a time when we probably could least afford to do so. The good news is some of those costs are being worked out as part of that restructuring effort I alluded to. And in addition, as time passes, some of these challenging projects are completed and the drag on earnings and cash they represent go away as well. And we need to work hard to make sure we're better as we bring on new business, to write it in profitable, positive cash ways and then to execute upon them through the life cycle of the project in that way.

And I'd say certain, which is really all on us, I think some of the fundamentals critical to running an industrial business successfully have really not been hardcoded into all corners of the Power business. And a lot of what we've been doing since the 1st of October is getting back to those basics in terms of the daily management with respect to how we sell, how we source, how we build, how we service.

A lot of it is not glamorous. There's no big breakthrough there. It's just, again, fundamentals. But fortunately, all largely within our control. And as we work those 3 elements, we think we get the Power business back in fighting shape.

Douglas Stuart Harned - Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst

But when we look at the market, I mean, how much excess capacity do you see out there? I mean, is this an issue in getting Power where you want it to be?

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

For sure. For sure, which is, again, why adjusting our cost structure in line with market demand is so critical. So we took a nice step forward in that regard last year with the \$800 million that we took out. We've had 1,000 people leave the payroll already this year. You may have seen some of the press coverage with respect to what we're doing in France just this week, where we have another -- where we have consultations underway with additional headcount reductions in mind just to get that cost structure in line with industry demand.

Douglas Stuart Harned - Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst

And do you see your competitors, are they all behaving rationally in this kind of a market with some excess capacity out there? I mean, is this a tough competitive situation?



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

I think it's always been -- I've only been involved for a year, but my sense is this has always been a tough market. I'd say all of our businesses have good, worthy competitors, but I don't think we see anything, if you will, wildly irrational.

Douglas Stuart Harned - Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst

Yes. I'm just interested in the -- from an investor standpoint, Power has obviously been an issue a lot of people have focused on and that's why you mentioned it right up front

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

You bet.

Douglas Stuart Harned - Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst

How do you get investors comfortable that this is going to turn the corner, that you can kind of see when that corner is going to be. How do you get people on board?

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

Yes. Well, I mean, for me, I think we ultimately get anybody who's not on board, I won't ask for a show of hands, by delivering. There's only so much we can do in terms of being transparent about some of this history, let alone laying out how we're working it day in, day out. I think we're mindful that, at some point, we just have to deliver better numbers here.

And part of why we talk about this as a multiyear transformation is we didn't find ourselves in this spot overnight. We're not going to get out of this place overnight. No business consumes more of my time right now than our Power businesses, 4 or 5 days last week in Atlanta with the teams. I'm encouraged, but I know that doesn't mean anything, it doesn't mean much to many of you. We've got to translate all of those operating improvements in a sustained way over time into financial results. We've got a team that's committed to do it. It's a team, I think, that can do it. But that's all talk. We need to deliver.

Douglas Stuart Harned - Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst

Then on Renewables, Renewables is much smaller than Power but Renewables obviously a growth area. What kind of scale do you think you need in Renewables to really make that a more successful business? Not that it's not now, but...

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

Well, Renewables is a good business in many respects, right? It'll be our fastest-growing business in 2019. That's a good thing. We were #1 in share last year in the U.S. in onshore wind. And when we talk about Renewables, it really is a wind business, it's really an onshore wind business.

What's not so great about Renewables this year, and we've said this publicly, is we're going to see negative cash in that business in part because of the nature, the progress, collections and disbursements in and around the demand that we're seeing in the U.S. But I think, over time, Jérôme and the team have demonstrated an ability to be smarter about price than some of our other businesses. They've done a very nice job driving productivity. We have some of the project execution challenges there, but I don't think we feel like we are undersized even though we're third overall in wind.



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We continue to make big investments in Renewables. We've got both a new onshore and a new offshore platform under development, the Cypress and the Haliade-X, respectively. Would have been easy at a time like this to just gut R&D in Renewables, but this is a long-term play. We've got a more modest position in hydro. We have some investments in solar. We're moving our grid business, which came to us largely from Alstom, into the Renewables segment because we have customers asking us to try to do more in combining our onshore wind and our grid capabilities, which is exciting.

So here again, we need to work through this progress dynamic in the U.S., see these investments through, continue to drive productivity. But we think Renewables, like Power, can be a profitable, cash-generating business for GE.

Douglas Stuart Harned - Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst

And just on that, when you look forward at the growth, it's the fastest-growing business, where do you see most of that growth coming from? Both I'd say -- both product, geography and...

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

It's largely onshore wind, largely U.S., but the onshore business is increasingly global. And again, we have a more modest position in offshore but are working not only in the lab on the next-generation product, but frankly, commercially as well because of the lead times with respect to orders in Renewables. Discussions, I think, give us some optimism that those products will be well received in the market.

Douglas Stuart Harned - Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst

Well, I just got a question directly related to that. The question is, have the most obvious renewable resources been exploited? And does this -- can this limit your growth?

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

As I have gotten into this business the last 8 months and spent time with some customers, I don't get the sense that -- at least in wind, that they have been exploited, right? I think you're going to continue to see this tilt as part of the energy transition. And as I talk to customers and how they think about just the globe both from a wind footprint around the world, let alone how countries are thinking about renewables generally, wind specifically, it seems like we still have a good bit of runway.

Douglas Stuart Harned - Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst

Well, if we -- another question here, which is, look at everything in the portfolio, let's say we see a recession. How does that affect GE overall? Where do you worry the most? Where do you not?

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

Right. Well in many respects, given our own set of issues, right, we've been on recessionary footing in some respects for a while. And having managed through a number of recessions, it's always good to get an early start. And I say that not completely tongue in cheek.

To me, though, if you're going to go into some choppiness, it's good to be long cycle because that, too, gives you time to prepare. And frankly, it's good to have a large book of recurring revenue. With 50%-plus of our revenue in the aftermarket, I don't want to suggest that we are not exposed to the economy, but I think this is a portfolio that is really built for those sorts of environments. And over time, I think we've demonstrated that. It doesn't mean we won't see less electricity consumption, doesn't mean we won't see fewer passenger miles, but I think this is a business that can



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withstand any of those macro pressures as long as we tend to the priorities I highlighted at the outset in terms of continuing to delever the balance sheet just because we have to and we need to in addition to running the businesses in a more robust, more disciplined way.

Douglas Stuart Harned - *Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst*

Well, I think to wrap up, maybe you could tell us what do you see as your single biggest opportunity and single biggest challenge as you look at all of this?

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

Yes. It might be one and the same, right? How do you take a company with these assets, these strengths, this heritage, this brand, this global footprint and unlock the value inherent in it, right? Is that a challenge, perhaps one that's insurmountable? Is that an opportunity of some magnitude? That's obviously the debate the market's having, right, on a regular basis.

I tend to look at it as an opportunity. I would not be here otherwise. This is intellectually fascinating on the inside. There's an element perhaps of service. But at the end of the day, we can run this business in a better way for our customers and our shareholders. I think this is a team very keen to do that, to make this right, and I'm happy to represent that team this afternoon.

Douglas Stuart Harned - *Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst*

Well, great. Well, Larry, thank you very much for joining us.

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

Great. Thank you, Doug. Thanks, everyone.

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