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# EDITED TRANSCRIPT

General Electric Co Outlook Conference Call

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## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to the General Electric Investor Call. (Operator Instructions) My name is Brandon, and I'll be your conference coordinator today. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the program over to your host for today's conference, Steve Winoker, Vice President of Investor Communications. Please go ahead, sir.

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**Steven Eric Winoker** ***General Electric Company - VP of Investor Communications***

Thanks, Brandon. Good morning, all, and welcome to GE's outlook call. I'm joined by our Chairman and CEO, Larry Culp; GE Vice Chair and Aviation CEO, David Joyce; Gas Power CEO, Scott Strazik; Power Portfolio CEO, Russell Stokes; Renewable Energy CEO, Jérôme Pécresse; Healthcare CEO Kieran Murphy; and Capital CEO, Alec Burger. In addition, Carolina Dybeck Happe, our new CFO, started this week and joins us in the room today.

Before we start, I'd like to remind you that the press release and presentation are available on our website. Note that some of the statements we're making are forward-looking and are based on our best view of the world and our businesses as we see them today. As described in our SEC filings and on our website, those elements can change as the world changes.

With that, I'll hand the call over to Larry.

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

Steve, thank you. Good morning, everyone, and thank you for joining us.

A few items that we'd like to cover before we begin. First, I'd like to acknowledge the passing of former GE Chairman and CEO, Jack Welch, earlier this week and the profound impact he had on this company. Jack was a giant in the business world and the heart and soul of GE for decades. He changed the business landscape as we know it. Jack once said, "An organization's ability to learn and translate that learning into action rapidly is the ultimate competitive advantage." We'll greatly miss Jack, and we will honor the legacy by taking those words to heart.

Second, this morning, we announced the nomination of former U.S. Secretary of Defense, Ash Carter, to GE's Board. Ash brings the perspective of our government and aerospace customers directly into our boardroom, and his experience navigating changing geopolitics and markets will help us be more nimble as we go forward.

And third, I'd like to welcome Carolina, who started this week. She'll be spending her initial few months with our businesses and our teams.

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**Carolina Dybeck Happe** ***General Electric Company - Senior VP & CFO***

Thank you, Larry. Great to be here. I'm looking forward to meeting many of you in the coming months.

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

Thanks, Carolina. So today, we'll take you through what you can expect from GE in 2020. I'll begin with the overview, then the team will go through their respective businesses. And I'll wrap with a view of our consolidated financials.

So now on Slide 5. These are the key messages that we hope you take away from the morning. We're operating from a position of strength. Our mission-critical global industrial businesses have a combined $405 billion backlog, where services represent about half our revenue. Our leading technology and service capabilities put us in close daily proximity with our customers with deep strategic relationships, and we're well positioned to take advantage of robust long-term market fundamentals.

As we shared at earnings, we've set clear intentional priorities for the year, solidifying our financial position, continuing to strengthen our businesses and driving long-term profitable growth. Ruthlessly prioritizing a few key objectives help us diligently address our most pressing issues and make substantial progress last year. This will continue in 2020.

Our lean progress is accelerating. Over the last year, we started to apply lean more systematically across GE with a relentless focus on customer value. You'll hear examples from our leaders today where we're focused on getting to the root cause of problems and eliminating waste, and where we are seeing real improvements in safety, quality, delivery and productivity. While we know that the impact of this work is only starting to become visible to you, our investors, I'm confident that it will drive better results and a better culture over time.

In the near term, we're still tackling headwinds and have work to do. Some variables are evolving daily, such as the COVID-19 outbreak. Other variables are more firmly within our control. For example, the improvement in Renewables will primarily be driven by the execution of actions taken directly within our control, and Jérôme will cover this in detail later. Across all our businesses, we see opportunities for continued operational improvement.

Finally, and most importantly, we're confident in our capacity to deliver because of GE's strengths, our exceptional team, our leading technology and our global reach and capabilities. We've discussed before how we're running the company differently. We've changed how we approach and solve problems, putting the good and the bad on the table in equal measure. And all this is still a multiyear transformation, but I'm exceptionally proud of our team's progress and how we are embracing the values of transparency, humility and focus at all levels of the company.

On Slide 6, we've outlined our total company targets, which have not changed since January. The key assumptions underpinning our plan continue to be the same as well as the variables, with one important exception: the addition of COVID-19. COVID-19 is not included in our outlook beyond the first quarter as we see it today. In aggregate, we have a positive trajectory in 2020 despite some areas of volatility.

Moving to Slide 7, on the COVID-19 outbreak. Given the extreme fluidity of the situation, I'll give an update based on the facts we know today. Recently, this has become a global issue, and we have full-scale global preparations underway. GE's top priority is the continued safety of our employees. Our health care team is in the middle of this, servicing equipment and prioritizing equipment deliveries to effective areas, managing our supply chain to keep pace with demand and donating patient monitors and ultrasound equipment. Across our businesses, we're in constant communication with customers, suppliers and governments to prioritize business continuity to the best of our ability. Broadly, running our operations with greater rigor, especially our global supply chain, gives us flexibility to manage and adapt to risks as they evolve.

To date, the impact is most clearly pronounced in China, so I'd like to provide more context there. Our operations in China are large: 18,000 employees with 2,000 in the Hubei province, representing approximately 9% of our Industrial segment revenues. The majority of our sites in China went back to work in February, but are operating below full capacity due to travel and work restrictions. As we're all aware, new information emerges daily. But at a high level, we're seeing an impact on air traffic demand, commercial demand in China and within our supply chain. Recently, we provided an update that we expect first quarter Industrial free cash flow will be about negative $2 billion, which includes an expected impact from COVID-19 in the range of $300 million to $500 million. The year-on-year decline in the first quarter is primarily driven by Aviation due to COVID-19 and lower progress as a result of the 737 MAX grounding.

Similarly, we expect first quarter adjusted EPS to come in around $0.10, which includes an expected impact of $200 million to $300 million of operating profit. This is, again, based on what we see today.

As of today, we expect this headwind to be absorbed in our full year free cash flow and EPS ranges. However, impact beyond the first quarter is not included in our full year 2020 outlook. The impact depends on many variables, including duration, magnitude and geographic reach of the outbreak, and we're monitoring updates closely along with the rest of the world.

Now 4 days on the job is too early for me to put Carolina on the spot, so I'll speak to the topic of improving our financial position before the business leaders provide their updates.

So next, on Slide 9. We've made substantial progress on improving our financial position in 2019. We continue to reduce our leverage, and we ended 2019 with Industrial leverage of 4.2x net debt to EBITDA, down from 4.8x at the end of 2018. We continue to target achieving our Industrial leverage goal of less than 2.5x net debt to EBITDA in 2020. We have substantial sources to delever and derisk our balance sheet. We are still targeting to close BioPharma in the first quarter, and we'll continue to sell down our remaining stake in Baker Hughes in an orderly fashion. Post the BioPharma close, we plan to complete the previously announced 2020 deleveraging actions that you see on the right.

We'll contribute $4 billion to $5 billion to our U.S. pension, which we expect will meet the estimated minimum ERISA funding requirements through at least 2022. We'll also repay the remaining intercompany loan of $12 billion from GE to GE Capital, a portion of which will be used to pay down 2020 GE Capital debt maturities. Finally, we will repay approximately $1 billion of maturing industrial debt.

As we've previously stated, while our Industrial leverage target is less than 2.5x net debt to EBITDA, we will also evaluate other measures, including gross debt to EBITDA. We will ultimately size our deleveraging actions across a range of measures to ensure we're operating the company with a strong balance sheet. We'll evaluate $5 billion of additional actions based on their deleveraging impact, economics, risk mitigation and our target capital structure. We're also monitoring key risks, including interest rate volatility. We expect that our total cash deleveraging actions at Industrial will be in the range of $23 billion in 2020.

At Capital, we ended 2019 with a debt-to-equity ratio of 3.9x, and we expect to close 2020 below our leverage target of less than 4x. Alec will cover this and GE Capital in more detail shortly.

So with that, I'll pass it over to David.

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**David Leon Joyce** ***General Electric Company - Vice Chair***

Thanks, Larry. Let me start with the key messages for Aviation. We see very strong underlying fundamentals in the industry while managing through the shorter-term challenges of COVID-19 and the MAX return to service.

We start the year with a total backlog in the business at a record high of $273 billion, an indication of both the strength of our commercial aftermarket and the commercial success of our new product portfolio. With the GE9X now in flight test on the 777X, we have successfully transitioned the 3 biggest engine product families for the future. At the same time, we're taking advantage of the favorable military environment, securing generational wins that I'll expand on shortly.

Now we're also working through some short-term challenges, starting with the 737 MAX and supporting the safe return to service in the midyear time frame. We've reduced our LEAP production capacity to 1,400 engines this year while ensuring we can support Boeing production rates for the remainder of this year and into '21. And lastly, we're dealing with the impact of COVID-19 on global travel, anticipating further contraction in flying hours and shop visits for the year.

Now with that as a backdrop, here is the outlook for Aviation. For 2020, we forecast revenue growth in the low single digits. In the commercial segment, we forecast flat revenue, up mid-single digits in services, contracting in equipment due to the LEAP rescheduling on the 737 MAX. We forecast continued low double-digit growth in military, equipment, service and development programs. We forecast cash flow to be flat to positive from '19, including our current assessment of COVID-19's impact in the first quarter. We ended the year with certainty on our LEAP-1B cash and production schedules for the MAX and aligning our cost structures with the revised production plans accordingly.

In 2021, we forecast continued growth in the commercial and military businesses, consistent with the strong industry fundamentals. And we'll use this strength to offset GE9X pressure as it enters service in 2021. We, therefore, see growth in revenue, cash flow and opportunities for margin expansion in '21.

Now moving on to cash flow. For 2019, we generated $4.4 billion of free cash flow. And as I stated earlier, we're planning to be flat to up this year, including our first quarter forecast of the impact of COVID-19. Let me run you through the elements.

Our earnings, net earnings ex depreciation and amortization, were $6.3 billion. We're forecasting this to be up in 2020. For working capital in '19, we used $1.8 billion of cash, primarily in 3 areas: the MAX grounding, representing about half of this in receivables, progress and inventory. The balance attributable to inventory buildup due to delinquencies in delivery and lower receivables factoring.

Working capital in 2020 will improve markedly driven by the agreement we've reached with Boeing on LEAP engine deliveries for the MAX, which I'll talk you through in a minute, as well as inventory improvements resulting from our continued journey on lean.

Contract asset cash flows improved in '19 as we saw strength in airline utilization reflected in billings throughout the year in addition to the restructuring of a unique long-term service contract called out in the 10-K. We anticipate contract assets being down in 2020, partially due to the contraction in commercial air travel.

In 2019, we've talked about the allowances tailwind we had with respect to the timing of airline deliveries, which we expect to return to normal in 2020. And finally, we anticipate a reduction in CapEx as we slow our services build-out of LEAP, consistent with the new reality of the MAX deliveries.

So now let's talk about the first quarter cash flows. We expect a year-over-year decline primarily driven in 3 areas: 737 MAX, both progress and deliveries, first quarter year-over-year will be down; COVID-19, both in-flight hours and material demand; and a more normal timing on airline deliveries. So in summary, we expect continued strength in 2020 free cash flow, driven by improved working capital dynamics, military sales and the strength of our installed base aftermarket.

Let's take a closer look at the commercial outlook. An unprecedented backlog of $256 billion, up 22% year-over-year. Sales flat with growth in services and contraction in production due to the LEAP program being down over 300 engines year-over-year. As I said earlier, the backlog demonstrates both the strength of our commercial aftermarket and the commercial success of our portfolio transition for the future. We see the installed base continuing to grow, closing in on 40,000 in the year.

In services, we see solid performance across all product lines, with some timing impact due to COVID-19 and the MAX. We have the strongest services portfolio in the industry, led by the GE90 and CFM, with GEnx and LEAP growing double digits through the mid-20s.

Our fleet in airline service is young, with lots of growth opportunities for service. 63% of our fleet has seen 1 shop visit or less. And I've shared this fact with you before that 2 out of every 3 departures worldwide are powered by GE and our JV engines, a very good proxy for our parts and services growth.

Now turning to a couple of watch items, starting with COVID-19. Let's focus on the first quarter with the largest impact being in China and the Asia Pacific region. The speed at which the world responded to COVID-19 was evident by the rapid contraction in air travel demand. This is depicted on the graph on the left side of the slide. Couple that with the increase in importance of China and the Asia Pacific region on global air traffic, and the impact is significant on a worldwide basis. No one knows how this will play out over the year. However, we estimate the impact for first quarter free cash flow is $200 million to $300 million. Now underlying fundamentals of the industry remains strong, but COVID-19 will play out throughout the year.

Now turning to the 737 MAX impact. Through our CFM partnership, we're working very closely with Boeing and our customers with the #1 goal to achieve the safe return to service. We have reached an agreement with Boeing on payment terms for our production deliveries in '20 and the engines delivered in '19 that are on parked aircraft and developed our production schedules for 2020 and beyond accordingly. This, of course, has resulted in more capacity than we need for the LEAP program, both at GE and in our supply chain. And to compensate, we plan to reduce CapEx and OpEx, including a hiring freeze, restructuring and reallocating capacity to other demand that has been delinquent due to the constrained supply. We are reducing inventory consistent with the new production schedules while protecting the supply chain's ability to ramp in support of Boeing demand.

So let's turn to the successful transition of our commercial engine portfolio, the GEnx, LEAP and GE9X. I've included our forecasted installed base growth for each of these segments as an indication of the continued strength in our commercial aftermarket. Each of these engines is winning in its segment as a result of our differentiated technology and the product performance in our customers' operation, better utilization, better fuel burn and recognized by lessors for their residual value advantage.

Next up, 777X powered by GE9X entering service in 2021. With that completed, we have successfully transitioned our commercial engine business, including the aftermarket, to a winning product portfolio for decades to come.

So now in closing, let me close with this military segment. As I stated earlier, we see strong market fundamentals both in the U.S. and internationally. And I want to reaffirm our growth projection in the business through 2025.

In '19, we missed our revenue forecast because of supply chain delinquencies. Orders were there. We just didn't deliver. We're using the capacity created by the LEAP program rescheduling to address these delinquencies. As such, we're forecasting low double-digit sales growth this year and low double-digit growth in externally funded military R&D.

'19 was a very productive year in our military business. We won the next-generation helicopter engine competition powering the Apache and Black Hawk families with our T901. Recall today, this is powered by our T700. And winning secures the future of our helicopter segment with a life-of-program opportunity exceeding $20 billion.

We're also selected to power the new Air Force T-X trainer with our F404 engine, which could top $5 billion life-of-program with services. There are also exciting opportunities in the advanced development area as well playing out in 2020 and beyond. And we are positioned with the best technology portfolio in our history to compete.

With that, let me turn it over to Scott.

**Scott Strazik**

Thanks, David. Before Russel and I cover our respective businesses, we'll provide the outlook for the total Power segment. Last year, we shared that Power is on a multiyear journey. This still holds true. Both Gas Power and Power Portfolio need to do better. We're focused on driving daily improvement, integrating lean management and enhancing commercial execution, and we'll share some examples shortly.

Russell, can you cover the outlook?

**Russell T. Stokes** ***General Electric Company - SVP***

Yes. Looking at 2020, we expect revenue to be up low single digits, driven by a stable new unit gas market with higher equipment revenues and segment margin expansion, driven by improved outage execution and ongoing cost out. Free cash flow will be better, but still negative, with an inflection to a positive cash performa nce in 2021. In all, while Power has made significant progress, we expect further operational improvements in 2020.

With that, I'll pass it back to Scott.

**Scott Strazik**

In the '19 outlook call, we talked about leveraging our strengths with the world's largest gas installed base, sustaining momentum with our HA technology and a back-to-basics message in operationalizing a better-run business for our customers while reducing our cost structure and winning the right deals. Overall, we're encouraged with our progress in our multiyear turnaround, but not satisfied.

Starting with the market. The industry reported 39 gigawatts of gas turbine orders in '19, up from 29 in '18, with GE reporting 16 gigawatts of new orders relative to 10 gigawatts in '18. This increase was driven by projects to replace coal and nuclear as well as LNG expansion globally, supporting our view that gas power will continue to play a critical role in the future energy mix. Our services book is performing as expected: stable contractual outages and cash flow, margin growth in transactional and upgrades down but stabilizing.

Last year, we decreased fixed cost by 10%, reducing headcount by approximately 2,000 people, and indirect cost by 16%. In '20, we project another 10% decrease in fixed costs, bringing it down to about $2.8 billion over 2 years. Our cash performance in '19, while still negative, was significantly better than '18, and we are highly confident that our '20 operating performance will position us well to return to the black in '21. So in summary, a lot of progress, but more work to do.

Shifting to Slide 20 with a breakout of the business by profit pools. Let's start with equipment, which is roughly a $4 billion revenue business. We continue to underwrite for a 25 to 30 gigawatt market, and we anticipate growing equipment revenue high single digits in '20. Our technologies, including our H Class turbines, position us well for future demand. We booked 18 units of HA orders in '19 and officially launched the 7HA.03 in October. In '19, we stabilized our equipment performance and backlog. We like the new deals we won and view the as-sold margin rates as a floor, with expectations that we will accrete margins through the execution phase. I'll take you through specifics on the next slide.

Gas Power's global supply chain is embracing lean with our recently implemented factory lean lines. In '20, we'll ship between 45 to 50 gas turbines relative to 38 in '19, with corresponding steam turbine and generator scope to follow. This volume increase, complemented by lean management, will strengthen our competitiveness in '20.

Shifting to services. The global electricity generation from gas is expected to grow approximately 2% annually. We have a $9 billion revenue business, which we project to remain relatively flat in '20, but with higher cash flows and continued margin expansion. The foundation is our $55 billion contractual backlog, which has coverage on approximately 1,700 gas turbines and associated equipment. Global utilization for this book was up 2.5% in '19, with strength in the Americas, Middle East and Europe notably up 3.5%, offsetting pockets of contracting dynamics in parts of the world.

Our transactional revenues were flat in '19, while margins expanded about 400 basis points as we underwrote smaller, more profitable transactions with focused pricing and cost-productivity initiatives. We continue to focus on revenue growth here and expect further margin expansion in '20 due to additional pricing and cost actions.

On upgrades, we saw contraction in '19, as expected. F-class AGP demand has leveled off and now represents roughly 20% of our upgrades pool. We are seeing growth in rotor end-of-life upgrades, generator repairs in the U.S. and Aero. We expect stable performance in '20.

In summary, we are executing our plan to deliver high single-digit operating margins by '21, driven by expanding margins and equipment book, improved services execution and continual reduction in fixed costs. And we expect positive free cash flow in '21, as we've committed before.

Next, I'll double-click on the progress we've made derisking our $8.5 billion equipment backlog, and I'll go through how we view the portfolio. First, the vintage of our backlog has evolved to primarily be deals we have underwritten since '17, which is when we substantially strengthened our underwriting rigor. We are no longer focused on revenue growth, but rather each deal's life cycle economics and the risk weighting to achieve an appropriate return. We've also increased our contingencies to enable margin accretion, a practice consistent with the EPC industry.

The turnkey project scope backlog is also decreasing as legacy projects wind down. We've been very selective on which extended scope projects we're willing to underwrite based on the risk and return equation and our confidence in execution. We believe it is important to retain turnkey capabilities and working with our EPC partners to determine overall pricing.

On the right-hand side are the key enablers to make this sustainable. First, it's important to talk about our team. Our strength in central projects leadership drive standard work during project underwriting and execution. We have upgraded the regional leadership of our projects with a GE officer in every major region. The leader that underwrites the deal owns the handoff and execution, and this is starting to bear fruit.

In terms of execution, we added 18 gigawatts of installed power globally in '19. We are focused on quality and on-time delivery for our customers. Standard project reviews and performance metrics are operationalizing this discipline. With these improvements and a culture centered on product and project cost out, we expect to improve margin rates in our equipment book relative to '19 by 2 to 3 points in 2020.

On my last slide, I'd start by saying approximately 50% of the global gas power is generated with our equipment, and we service about 1,000 global outages a year. We acknowledge a real opportunity to service our customers better, and the lean principles of putting the team in the field at the center and applying continuous learning from the field globally are helping us to do so. This slide outlines our progress, but more importantly, areas of opportunity going forward leveraging lean.

It all starts with seeing the outages clearly and early, planning them flawlessly with tight coordination between the regions and fulfillment centers and then executing well in the field. Throughout '19, we've improved our visibility. We see with high confidence the next 24 months of outages across our installed base. We've improved planning, especially in our contractual book. We defined 32 critical steps that must be completed over 24 months, and we've reduced our short cycling of these tasks by 27%. This results in our parts on-time delivery improving by more than 30% versus a year ago.

Our lean efforts in the repair shops are also improving. In '19, we focused on Greenville and Singapore, and we saw a cycle-time reduction of between 35% and 50%. This is important for cost and inventory, but also for our competitiveness in quoting new work, especially in the transactional business.

On the right-hand side, I'd highlight that we will drive continuous improvement in '20. For every outage, we are performing an engineering assessment 18 months ahead of the outage so that our teams and customers are aligned on scope upfront. This helps our planning processes, ensuring no surprises in scope and also enables effective selling. Lean ultimately is about putting the operator at the center. For outage execution, there's no reason the same principle should not apply, and we are implementing a way for the teams in the field to immediately pull the end on and stop work to address issues before they become larger.

And lastly, we are focused on shortening the time to close out every outage from 6 months to 30 days to apply the learnings for continuous improvement.

Now I'll pass it to Russell.

**Russell T. Stokes** ***General Electric Company - SVP***

Thank you, Scott. We're running Power portfolio better with a very lean headquarters closer to the customer and point of impact. In '20, we expect organic revenue growth and margin expansion at Power Conversion. Total power portfolio will be down as we manage through project timing.

We are focused on 3 distinct businesses, each with its own set of imperatives and market realities. The first 2, listed on the right side, steam and nuclear, are impacted by the global energy transition. While Power Conversion, our electrifications business, benefits from increasing electrical trends.

Let's start with steam. Last year, we combined our service and new units operations to create a full life cycle franchise that supports the changing demands of our coal and nuclear generation customers. In 2019, new service orders declined 16% due to a reduction in upgrades, offset slightly by stability in our core service business. We don't anticipate growth in upgrades and are focused on core services, the highest-margin segment, where we expect low single-digit growth.

Given the realities around coal, the team is actively adapting its business strategy, focusing on global opportunities to grow in nuclear and biomass with the market's best-in-class steam turbine. We're also rightsizing the business by transitioning our manufacturing footprint to lower-cost regions.

Next is GE Hitachi Nuclear, which is almost entirely service-based. The team is focused on driving outage and fuel productivity of our customers to reduce the operating cost of their nuclear fleet. We see growth opportunities in PWR fleet penetration and decommissioning services work that leverages our existing technical and field teams. We're rightsizing the business while continuing to invest through customer and Department of Energy-funded programs, like our BWRX-300 small modular reactor.

Next is Power Conversion, where we redefined the sales perimeter to focus on the profitable spaces, returning the business to providing higher-valued electrical system solutions in oil and gas, marine and numerous industrial segments. We've refined our manufacturing footprint, reducing our cost structure by approximately $100 million over the last 2 years through successfully executing planned factory closures and additional cost actions. Now we are focused on optimizing operations through lean.

In 2019, I assumed the CEO role of Power Conversion while also overseeing Power portfolio. And as I mentioned, we refocused Power Conversion. While this resulted in a $120 million revenue contraction, we improved operating margins by 11 points. This was made possible by our strategic commercial pivot, combined with improved operational performance, achieved through our commitment to lean. Let me share a few examples.

Our motor factory in Brazil suffered from significant quality and delivery challenges. This was due to a strategic focus shift, poor planning processes and underinvestment in factory equipment. Machine uptime was only 76% in January '19. In 2019, we held many Kaizen events, hiring dedicated lean resources and engaging all functions. Teams worked to get down to root cause, adopt appropriate countermeasures to get "red performance areas" back to green. Teams learned to embrace the red with transparency, holding candid discussion and taking action. Success has been measured in 3 key data points: machine uptime increased from 76% to 92%; on-time delivery increased from 0 to 55%; and overdue units were reduced from 105 to 17, and now we're running back customers. We are not declaring victory. And we are accelerating our lean progress.

For example, at my recent Kaizen in Nancy, France, the team streamlined a process that took 2 hours with cranes down to 15 minutes without one. And that's just one example. By running Power Conversion better, we see potential of returning to profitability by 2021 and 100% free cash conversion by 2022.

I will now hand it off to Jérôme.

**Jérôme X. Pécresse** ***General Electric Company - SVP***

Thanks, Russell. For GE Renewable Energy, there are a few key themes: First, the Renewable Energy business is benefiting from clear market tailwinds. Continued reduction in cost of energy from wind and solar drive strong market growth, particularly in Offshore Wind.

Second, our business has 3 distinct operating dynamics, as Larry already explained a few weeks ago, and we run it accordingly, which I'll explain in a moment. Our business leadership teams are focused on operational rigor, cost control and cash discipline. Specifically in Onshore Wind, a profitable business today, our priority is improving margins through product cost out, service growth and better execution.

These businesses, along with our developing capabilities in storage, makes our portfolio the most comprehensive in the renewables industry worldwide. It will enable end-to-end base load renewable solution for customers, providing stronger growth for GE.

We think about and run our business in 3 parts, as you can see on Slide 26. The core is Onshore Wind, supported by LM Wind Power, our blade manufacturing unit. It is profitable today, and it represents 2/3 of total revenue. Our focus here is delivering on the volume ramp, accentuated by the U.S. PTC, growing internationally and expanding margins. Future growth for the business lies in our investment in Offshore Wind, where we capture sector growth with our industry-leading turbine, the 12-megawatt Haliade-X. This platform will anchor our growth through the decade.

And finally, we have grid and hydro, our turnarounds. These businesses represent 1/3 of our revenue and share similar issues: project execution, quality and pre-2016 subpar deals and projects in backlog. We have new leadership teams in both places laser-focused on operating better, plant by plant, project by project. Both run well at a place in our comprehensive renewables offering.

On the bottom left side of Slide 27, you will find our priorities for 2020 centered on running the business better. In 2020, we'll see revenue continuing to grow, up low single-digit organically versus prior year; segment margin improving significantly, but remaining negative; and free cash flow down due exclusively to some U.S. wind PTC working capital dynamics that I will explain in a moment.

In 2021, we are targeting breakeven segment margin and much better free cash flow generation. Looking at 2021 and beyond, if we execute the actions discussed today, we expect continued growth in services, targeting (inaudible) powering high teens as a percentage of total wind revenue, continued cost productivity and SG&A reduction, continued growth in onshore internationally, spearheaded by our high price and low wind steam turbine platforms. We expect shipments of the initial Haliade-X units, targeting revenue of approximately $2 billion per year with positive profit and cash. And we expect breakeven in Grid and Hydro. We believe, ultimately, renewables can and will deliver strong profitable growth for the company, and it starts with running the business better, plant by plant, site by site, which is our focus for 2020.

Let me now explain the market tailwind with Slide 28. Renewables will continue to dominate capacity additions for the industry. Solar will be the majority, as you can see, with wind growth coming primarily from offshore. As you can also see on the top right, wind and solar are growing because they are economically advantaged versus other fuels based on levelized cost of electricity. Wind compared favorably to solar in most geographies. And new technology developments will continue to reduce LCOE.

What will happen to the U.S. onshore wind market when the PTC phases out? Certainly, it will decline from 2020 high point, as shown on the bottom left, but it levels off to a smooth landing over the following years. There could be some upside thanks to the recent PTC extension for 2024. Internationally, the onshore market remained strong, leveling off at 47 gigawatt per year, starting in 2021.

Since a few years, we have been focused on more geographical diversity in our order profile as we maintain our industry-leading U.S. market share. We launched a Cypress platform for Europe, Asia and Latin America and the low wind speed platform for China and India. '19 was our largest order year ever in China, securing 1.2 gigawatts of orders, and we expect continued success in 2020. Finally, our order price index, as a result of market dynamics and pricing discipline, has improved significantly, which should continue in 2020.

I'd like now to elaborate on 3 topics that are critical to our success: the Haliade-X, execution and cash flow. We started the Haliade-X program in 2018, planning a $400 million investment to develop a turbine that leapfrogs the competition across the 10-megawatt threshold. We launched this 12-megawatt turbine, leveraging the entire GE family to design, test and engineer the world's most powerful turbine. It offers industry-leading capacity factor, which means it is more efficient than any other turbine in converting wind to energy. That capacity factor, with the 12-megawatt rating, makes the Haliade-X the first turbine offering more than 60 gigawatt hours of gross annual energy production. That's enough clean energy to power 16,000 European home.

Customers have reacted well to it. We have commitments from some of the biggest global offshore players, including Orsted and Equinor-SSE. We have been selected for nearly 5 gigawatt of projects in Europe and here in the U.S. In China, which could potentially become the world's largest offshore region, we have established a foothold with nacelle and blade factories.

The Haliade-X prototype was installed in October '19 in Rotterdam. Since then, its performance has been stellar. In January, it set a world record for 24-hours performance, generating 288 megawatt hours. We are targeting full type certification this year, and we remain very active commercially.

Our investment starts paying off in 2021 as we begin shipping units and recognizing revenues. Offshore will be cash positive over time. Today, our focus in this segment is completing the prototype type certification and converting commitments into orders. Offshore is no longer an R&D project. It's a burgeoning GE business.

It is not distracting us from our next topic, which is a priority, which is 2020 execution. We are focused on our operational improvement enabled by lean. Each business has clear operational leading indicators to manage and measure progress. We prioritize 2 areas, Onshore Wind deliveries and cost out and project execution across the portfolio.

Just a few highlights. In Onshore Wind, we have a historically high volume of turbine deliveries this year. But as you can see, our highest quarterly volume this year is lower than our highest quarter last year in '19. We have also improved our predictability quarter-over-quarter last year. So we are confident we can deliver. Because of the PTC dynamic in 2020, a substantial portion of that volume will be delivered in the first 3 quarters of the year. We are working daily on logistics and also with customers on site readiness and mitigation plans for possible weather interruptions.

We are monitoring closely the COVID-19 situation. And as of today, we are on track to our quarterly forecast. We continue the positive recovery of our supply chain in China.

In a world of ever-declining LCOE, product cost out is essential to our competitiveness and profitability. We count pennies all across the supply chain. 1/3 of the turbine's cost is in the blade, and our LM team is focused on decreasing that cost substantially in 2020 with more productivity. At the same time, we continue our journey in service productivity, using digital to improve the way we maintain the fleet and improve lifetime performance. We saw solid performance in 19, a trend we expect to build on in 2020. We will also keep our strong focus on repowering.

In Grid and Hydro, we have been diligently closing out subpar projects in our backlog, reducing this project from $7 billion to about $1.5 billion by end of this year. These long-cycle projects have been a headwind. Completing them while minimizing margin erosion is the goal and an absolute priority. We also built a project management office with a weekly review process to ensure the quality and soundness of new deals as well as prepare and monitor their execution. We are making constant progress on improving the overall quality and execution of our project backlog.

Improving our free cash flow is our first priority. Reducing cycle time and increasing inventory turns by applying lean tools will certainly better that performance. In 2020, we have a unique headwind in U.S. Onshore Wind. Given the PTC deadline, turbine deliveries in the first 3 quarters will be much higher in proportion than usual. This results in year-on-year inventory build and higher payable settlement in 2020 on top of settling, as usual, prior year 1. In addition, as we enter the post 100% PTC period, sales will significantly outpace orders in the U.S., negatively impacting progress collections.

Due to this headwind, while better execution is significantly improving cash flow in all of our businesses, we expect lower free cash flow in 2020 versus '19. But these same dynamics, plus our execution improvement, make us confident we have much better performance in 2021.

To wrap up, I highlight 2 points about our renewable business: There is solid growth in this market, particularly in offshore wind and probably more than what we believe today. Second, we are laser-focused on improving operations and will make substantial progress in 2020.

Now I'll turn it over to Kieran.

**Kieran P. Murphy** ***GE Healthcare Inc. - President & CEO***

Thank you, Jérôme. I'm pleased to give you an update here on our Healthcare business. This is a world-class health care systems and pharmaceutical diagnostics business with 50,000 employees serving customers in over 160 countries. We have a strong supply chain with 38 plants globally and an unrivaled service business with 8,000 field service engineers supporting our installed base of over 4 million units.

This is a market with solid fundamentals, growing 3% to 4% every year, and we're uniquely positioned to win in precision health. We develop our products in close coordination with our customers. And with 20 R&D sites worldwide, this has resulted in a solid track record of innovation.

We're proud of the way we've run this business over the year, but we see opportunities to improve growth rates, margins and cash flow.

Last December at the Radiological Society of North America Conference, we shared our near to midterm outlook. We delivered 2019 in line with our expectations, and our 2020 framework remains the same.

In 2020, excluding BioPharma, we're expecting low single-digit sales growth, driven by a stable health care systems market in the U.S. and EU and growth in the pharmaceutical diagnostics market. We expect segment margin improvement driven by product and service cost-out and improved G&A leverage. We expect cash flow growth driven by higher profit and the non-repeat of reductions in monetization and supply chain finance and accounts payable programs.

Clearly, COVID-19 was not in our original framework, but we expect our first quarter free cash flow will be impacted by $50 million to $100 million. And I'll provide more color on that in the next slide.

As we look to 2021 plus, we continue to see low single-digit to mid-single-digit growth, driven by a stable market, improved commercial execution and new product-driven share gains, especially from our digital analytics and AI offerings. We have line of sight to margin expansion through continued product and service cost-out and G&A leverage. We also see continued free cash flow growth at good rates of conversion consistent with our history.

On Slide 34, I wanted to share our progress towards our priorities. Priority #1 has been improving the growth rate of our Healthcare Systems business. And over the past 3 months, we've invested heavily in our frontline teams and announced new commercial structures in the U.S. and China to better serve our customers. As a result, we're improving our visibility and our win rates. At the same time, our product teams have been busy. We launched top Tier 1 products and solutions at RSNA, totaling 61 in 2019.

Digital and AI are differentiators for us, playing an increased role in the new product engine with 18 newly launched apps on our Edison digital platform in the past few months.

China has been a tremendous market for us. And despite near-term disruption around COVID-19, we've kicked off a lot of localization projects, including new products targeted specifically for this market, and we expect these products to be leveraged in other emerging markets.

Lean is helping us improve customer experience and efficiency across our business. Since we last spoke, we've held 60 lean action workouts targeted at improving lead times, reducing scrap, increasing inventory turnover and enhancing the speed and accuracy of order entry. In one workout, our team significantly reduced installation cycle time of the Revolution CT at our customer sites and a reduction of 2 labor hours per unit. And we've executed on several actions to improve our cost structure as we position ourselves for life post BioPharma.

Moving to the right-hand side. We're leveraging GE's scale and local knowledge to respond to the needs of the COVID-19 outbreak. First, our priority is ensuring our 7,000 employees in China are safe and healthy. We're monitoring employee health daily, keeping a month-long supply of personal protective equipment for Chinese teams and establishing new travel measures where needed for employees.

Second, we're responding to urgent calls for medical equipment by installing and servicing technology where it's needed most as well as donating products.

We're also analyzing our global supply chain to reprioritize and immediately ramp up manufacturing. This includes closely coordinating with 400 local suppliers in China and making an unprecedented logistics push, chartering private flights, carrying hundreds of tons of supplier parts and medical systems.

All 5 of our Chinese manufacturing sites worked through the Chinese New Year, and our service teams have been equally outstanding. More than 600 field engineers, many in the Hubei province, are working extra hours to ensure medical equipment is installed and working.

We're planning for the future to secure supply for China and the world. Actions include accelerating product approvals in China, where they are critical to care, and using the Green Channel that the CFDA has set up. An example includes our new remote monitoring platform, and we're expanding our local manufacturing capabilities and diversifying our supply base with dual sourcing, which was a priority even before this outbreak.

I'm proud of the team. We're responding with speed and purpose, and I'm really delighted with the work they are doing.

Now I'd like to pass to Alec.

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**Alec Burger** ***GE Capital Aviation Services, Inc. - CEO and President***

Thank you, Kieran. Our strategy for GE Capital has been clear over the last 2 years, to be simpler and more focused while continuing to support the GE Industrials and reduce our overall risk. We continue to optimize our core business platforms: GECAS, a market-leading franchise that continues to deliver strong returns; Energy Financial Service, which supports the Power and Renewables business and their customers in developed and emerging markets; and North American life and health runoff business, which has significantly improved operations.

At the end of 2019, we completed our 2-year asset reduction plan, exceeding our $25 billion target by $2 billion. Additionally, we reduced GE Capital leverage from 5.7x in 2018 to 3.9x in 2019. We expect a significantly lower GE parent support in 2020, in line with the insurance statutory funding. We enabled Industrial orders of approximately $6 billion in 2019, primarily driven by EFS.

Let me describe the key metrics used to measure performance of GE Capital. Reported assets ended at $102 billion in 2019. This will be slightly higher in 2020 and again in 2021, driven by the capital contribution to insurance coupled with the modest growth at GECAS and EFS. Continued earnings will be lower in 2020, principally driven by lower gains and lower base earnings after completing our asset reduction program. We still expect to break even in 2021, driven by lower interest cost and lower preferred cost.

Total debt. We continue to delever. We will reduce net debt in 2020 by $4 billion, consisting of $16 billion in planned maturities, offset by the repayment of $12 billion loan remaining with GE. Our liquidity profile reflects these dynamics. Across GE Capital, our teams are utilizing lean principles to improve our operations, and we continue to evaluate all options to simplify and derisk the portfolio.

Now I'll discuss our GECAS and NALH businesses. GECAS is a valuable market-leading global franchise with more than 222 customers, a large and diversified portfolio of assets and strong technical and deployment capabilities. The team is known in the industry for their unparalleled domain expertise and experience in navigating challenging business cycles. In an increasingly competitive environment, this team has maintained strong underwriting discipline on new business and continues to deliver strong returns. They've also executed on asset sales, including PK AirFinance for approximately $3.6 billion. In 2019, GECAS delivered approximately $1 billion of earnings and ended the year with $38 billion in assets. In 2020, they expect to deliver between $900 million to $1 billion of earnings, reflecting the exclusion of PK. Looking forward, GECAS does face industry uncertainty, largely driven by the MAX and COVID-19.

Regarding the MAX grounding, we've been working with Boeing. Our combined teams have a long history of working together. We continue to plan for a midyear return to service, and we anticipate minimal impact to our overall 2020 profile.

On COVID-19, at GE Capital, we're developing specific plans and working closely with our customers who are impacted by the situation. The GECAS team has a long track record of managing through significant industry disruptions. Despite this uncertain and competitive environment, GECAS is a valuable franchise well positioned for continued growth and success.

Turning to Slide 37, focusing on North American Life & Health, where our operating results reflect the 4 stronger focus on the factors within our control. We have brought in several new senior leaders with deep domain expertise and extensive industry experience to complement the existing leadership team. We are focused on premium rate increases, securing approval for increases of 11% across our 4 largest LTC blocks in 2019.

The NALH team is executing on our portfolio reinvestment strategy and was able to partially offset the negative impact of lower market interest rates by reallocating a portion of our investments into higher-yielding assets to align with peers. In addition, and perhaps most importantly, the business claim activity is in line with our claim curves we built in 2017.

As we reported in the third quarter, the 2019 premium deficiency test resulted in approximately $800 million after-tax GAAP charge, driven by lower discount rates. The statutory cash flow test was completed this quarter with minimal incremental impact to our permitted practice funding. We funded $2 billion in February. We are actively managing the business and making good progress on the factors that we can control.

With that, I'll turn it back to Larry.

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

Alec, thank you, and all of our business leaders here today.

So to wrap with corporate, we continue to shift the center of gravity to the businesses. In 2019, adjusted costs were $1.7 billion, up $400 million versus the prior year, largely due to higher intercompany profit eliminations, increased costs related to existing EH&S matters and the non-repeat of intangible asset sales. Importantly, we have transferred roughly 8,500 people from corporate to the businesses as we empower them to make their own decisions on retaining or eliminating cost. And our core functions and operations were down 8% in the year, which represents real cost-out.

Over the next 2 years, we expect to reduce adjusted corporate costs by roughly $700 million, driven by improvement in our digital business, lower eliminations and better functional costs. We are now targeting corporate costs of approximately $1 billion by 2021, and we'll continue our efforts to reduce costs as corporate focuses on strategy, capital allocation, research, talent and governance.

So moving to our consolidated financials. On Slide 40, we show the walk from 2019 to 2020 adjusted EPS. As previously communicated, we expect adjusted EPS of $0.50 to $0.60, down versus $0.65 in 2019, primarily due to the BioPharma disposition and lower GE Capital earnings. Partially setting that will be continued operational improvements across all Industrial segments. We expect Power to continue to stabilize and Renewables to be better than 2019, though still negative as we work to turn around Grid and Hydro.

There's some potential volatility across the company driven by COVID-19. And at corporate, costs will be down as we approach the latter stages of our multiyear transformation.

Interest will be better, driven by our deleveraging actions, and we now expect our adjusted Industrial tax rate to be in the high teens to the low 20s. In addition, you can see revised revenue, margin and operating profit for 2019 excluding the year-on-year impact of dispositions. So if you want to think about a walk to GAAP EPS, the primary components are restructuring and nonoperating benefit costs, both of which will be lower in 2020.

Gains and losses from dispositions, in 2020, this will primarily be the BioPharma deal, mark-to-market accounting on our remaining Baker Hughes holdings and any potential impact from insurance loss recognition testing. Given the magnitude of these items, we believe that adjusted EPS remains the more meaningful earnings metric for 2020.

Slide 41 provides perspective for how we think about the year-on-year walk for Industrial free cash flow from $2.3 billion in 2019 to our range of $2 billion to $4 billion in 2020.

First, adjusting for portfolio changes year-on-year gets us to an adjusted starting point of about $1 billion. We expect growth to come from a combination of earnings, inheritance items and investment runoff as well as better working capital flows. Regarding each, as mentioned on the prior page, although the dynamics differ, we expect organic earnings growth in all segments.

On inheritance items and investments, which include legal settlements, pension, long-term monetization as well as restructuring, these remain a drag on free cash flow but will be below the peak of 2019. And working capital should be a significant positive in 2020, primarily driven by the 737 MAX agreement with Boeing that David outlined, which should result in the collection of outstanding AR balances. We also anticipate incremental benefits from better inventory management. Partially offsetting these will be higher cash taxes and timing items, principally the settlement of accrued discounts and payments in Aviation. As mentioned before, key to the continued improvement in our free cash flow profile is a combination of lower headwinds and meaningful earnings growth driven by stabilization at Power and Renewables, sustained growth at Healthcare and Aviation, with improvement at corporate.

Excluding the COVID-19, which is not included in our 2020 outlook beyond the first quarter, we're confident in delivering continued operational cash improvements in 2020 and beyond.

Next is a summary of our Industrial free cash flow expectations by segment, and our business leaders covered these dynamics earlier. At the total company level, as we execute, we can and will grow our revenues profitably and improve our overall cash generation. Our 2020 target is a range of a positive $2 billion to $4 billion. And from there, higher in '21 and '22. In aggregate, over the long term, we expect that our Industrial businesses should yield high single-digit free cash flow margin. But as you've heard, we have more ground to cover before we get there.

In closing, our priorities looking forward are clear. We are solidifying our financial position, continuing to strengthen our businesses and driving long-term profitable growth. As I shared earlier, our exceptional team, our leading technology and our global reach and capabilities are the bedrock of our strengths. Because of them, we're building a stronger, more focused company, and I'm more confident than ever in our future.

Taking a step back, as investors in GE, you have more than 200,000 people who come to work every day in over 170 countries for a broader purpose as well, building a world that works. Enabling a better quality of life for people around the world is what has fueled GE for well over a century, especially in times of great change and uncertainty. It is at the core of our mission to be part of the solution, and we will continue to be.

So we thank you for the opportunity to share these thoughts with you today. Steve, back to you.

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**Steven Eric Winoker** ***General Electric Company - VP of Investor Communications***

Thanks, Larry. (Operator Instructions) Brandon, please open the line.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) And from Citi, we have Andrew Kaplowitz.

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

Larry, could you give us some more color into what you're doing to prepare given the potential for the world to slow down more sharply because of COVID-19? You did talk about the $200 million to $300 million of impact on 1Q '20 Aviation cash, but that's really only coming from a slowdown in Asia travel. So if we see similar global impact in Q2, do you think we should just grow that cash impact up for the rest of the world? Just on contingency planning, how are you thinking about it?

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

Sure, Andy. I think as you heard from a number of the CEOs earlier, our priority, first and foremost, is the health and safety of our team. And everything that we have been doing in that regard, whether it be making sure personal hygiene habits are well established, thinking through how we take care of folks resident in the more highly impacted areas, the implementation of some limited travel restriction, all of that activity is very much geared towards the health and safety of our team. As Kieran indicated, it's particularly acute in the Healthcare business because we're on the front line supporting the health care providers who use our equipment to do that work, not only in China but really around the world.

I'd say, second, we're working very hard to make sure we are in sync with our customers, not only in Healthcare but really around the portfolio. I think David highlighted a number of the dynamics that he's working through with our airline customers, particularly in the Asia Pacific region as they work through these challenges. In China, particularly, our facilities are more or less back online with the exception of a handful of facilities in the Wuhan area. Not all of them are at 100%, but we are gradually working toward that goal. Our facilities being up is a good sign. We clearly need our supply base with us. They're working through a similar return to full capacity. We're working through that literally on a day-to-day basis, component by component, subsystem by subsystem.

What we shared financially was really what we know, Andy, relative to line of sight on the free cash and the op profit impact here in the first quarter, again, principally in Aviation and in Healthcare. I think we decidedly did not take a view and would not necessarily encourage any extrapolations from what we've said here in the first quarter simply because what we don't know outweighs what we do know at this point in time. It's a volatile, fluid situation, unpredictable in many respects. So I think what we wanted to do today was really flesh out what we shared in earnings relative to the 2020 outlook, highlight what we know and don't relative to the impacts, hence, the focus on the first quarter. And we'll clearly keep you posted as events unfold and those events' impact on GE.

**Operator**

From Barclays, we have Julian Mitchell.

**Julian C.H. Mitchell** ***Barclays Bank PLC, Research Division - Research Analyst***

Welcome to Carolina. Maybe -- just my question would be around the Power free cash flow movement. So we had a $1.5 billion outflow last year. You're guiding for positive in '21, so call it a $2 billion swing over that 2-year period. Maybe just help us understand some of the biggest moving pieces within that. I'm guessing that earnings maybe account for 50% of that. So any color on that? How much is from working capital? And how is the load split between Gas Power and Power Portfolio within that $2 billion delta?

**Scott Strazik**

Thanks, Julian. This is Scott. I'll start on Gas Power. Our Gas Power results '18 to '19 on cash were approximately $1 billion better, and that $1 billion improvement in '19 was primarily from project outflows coming down substantially, working our working capital down with inventory and an improvement with supply chain and also a better underwriting rigor both on the new units side and the services that contributed to a stronger cash performance while, frankly, taking down our factoring penetration in Gas Power by 20 points last year, as an illustration of how we're running this business differently. So when you take those things into account and go into '20 in Gas Power, clearly, with the factoring penetration down drastically, we're going to have a benefit this year from collections. We also continue getting a lot of structural cost-out, as you said, with operating earnings that are going to help. That's also going to be at play.

In '20 relative to '19, we're going to ship 45 to 50 gas turbines relative to 38 last year, which also helped that cash performance. The -- in the context of '20, when you look at collections, structural cost and unit volume, we're going to have a substantially better '20 to '19. In that context, though, within our '20 performance, we're still fighting away through the fact that we've got $1 billion of inheritance taxes, cash flows that are outflows from prior decisions that are made with long-term monetization with Alstom legacy and with the higher restructuring cash outflows that we're taking on that are going to be with us for '20 and '21 within the realms of about $1 billion both years but come down drastically in '22. So when we put this whole thing together from '18 to '19 with $1 billion improvement, high confidence '19 to '20 is better, but still with an inheritance drag. We see substantial opportunity between now and 2022 to an exponentially better cash performance for the business.

**Russell T. Stokes** ***General Electric Company - SVP***

I'll just add that for Power Portfolio, as we go forward, you heard Scott reference some of the legacy items. We've really successfully closed the project issues that came over from the Alstom acquisition. We have remaining cash exposure, about $100 million, that we'll navigate through over the course of 2021. Pre-acquisition ligation exposures are adequately reserved, but we do have potential cash outlays of up to $500 million that will get settled in the 2020 and 2021 time frame. But we expect to see strong cash performance as we head into 2022.

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

And if I may, what you heard from Scott and Russell there, Julian, is I think their best view of how we improve the cash performance in Power. They both referenced some of these inheritance taxes. I want to be really clear. That is not a conversation we have internally. When we go to Atlanta or Schenectady and have an operating review with Russell or Scott, that's not the conversation we have. We're really focused on how we drive fundamental improvement in the business. That said, we think it's helpful for investors to appreciate. And in 2019, we saw probably about $1.7 billion of cash out the door from these inheritance taxes. And we talked about the various nature of them. That is going to downtick, we think, call it, $300 million to $400 million a year over the next several years, such that I hope by the end of '22, those words never crossed our lips again. But it's an important part of a multiyear transformation here. We're focused on what we can impact, but those liabilities are cash calls over the next couple of years. But we do think, by the end of '22 going into '23, that's no longer a part of our conversation.

**Operator**

From Gordon Haskett, we have John Inch.

**John George Inch** ***Gordon Haskett Research Advisors - MD & Senior Analyst of Multi-Industrials***

Larry, the Fed's rate cuts would seem to potentially add billions of liability to your pension and insurance. And I'm just thinking, considering Baker's share price plunge, right, it's reduced the balance of your holdings by about $3 billion. Do you foresee seeking out alternative sources of new liquidity post the $20 billion coming in for BioPharma? And if so, what could those be?

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

John, I would say the short answer to the question is no or at least not at this time, right? We're clearly in a fluid, volatile point in time. But as in prior periods, this, too, shall pass, in our view. So I don't think we want to be rash in that regard. I think the underlying assumptions in your question are clear. As we've highlighted before, every 25 basis points of pressure in our discount rate with respect to our pension generates about $2.3 billion of obligations. So what's happened here of late does create more pressure were those rates to hold, but I think we're feeling very good about where we are today with respect to the deleveraging on the Industrial balance sheet. We continue to believe that we will close the BioPharma transaction soon. That will give us an opportunity to build on the $7 billion of debt reduction in Industrial last year. BioPharma should throw off $20 billion that will help us further deleverage the balance sheet. So all things being equal, at this point, we think we have a strong line of sight to how we get to that targeted 2.5x or less leverage ratio on Industrial.

But again, I think what we've tried to reiterate today with respect to the rest of the year, things are volatile, things are fluid, and we will take them as they come. But given what we know today, we'll stand by that answer.

**Operator**

From UBS, we have Markus Mittermaier.

**Markus Mittermaier** ***UBS Investment Bank, Research Division - Co-Head of European Capital Goods Research for EMEA and Executive Director***

The second area where there's obviously a big cash flow swing from '20 into '21 and beyond is Renewables. Can you walk us through that as well? If you can split that a bit into more sort of Onshore versus Offshore Grid and Hydro, how that cash flow pattern looks in those respective areas? And then particularly also on the Haliade CapEx pattern, at what point do we have the trough there? Is the trough behind us on that program from a CapEx perspective?

**Jérôme X. Pécresse** ***General Electric Company - SVP***

Thank you. I think the way to think about it is when you look at '19, '20, '21, from '19 to '21, the Onshore business globally, including LM, will generate a bit less cash flow due to the PTC lending and the impact of progress over the 2 years. This will be compensated by Offshore growing up in cash flow from '19 to '20 and from '20 to '21. Because in Offshore, we are pivoting from a mode where we are spending R&D and CapEx without generating revenues out of the Haliade-X to a mode where R&D will come down, CapEx will come down and revenues start to kick in with Haliade-X towards the back end of 2021. So if you look at the global Wind businesses, '19 to '21, you can have -- you have a reasonable flattish in cash flow performance, then going up into 2022 when Offshore continues to progress and Onshore Wind stabilize and increase post PTC. The cash flow improvement that we are seeing over the same period are coming from the turnaround of Grid and Hydro. And I would say it's a combination of 3 things: one is operational improvement leading to better cash flow; second is exhaustion of our share of this inheritance tax; and third is the work we are doing to bring great working capital ratios, in particular, payables, past dues, to the level we have for Renewable ex. Grid.

**Operator**

From JPMorgan, we have Steve Tusa.

**Charles Stephen Tusa** ***JP Morgan Chase & Co, Research Division - MD***

Larry, you mentioned the inheritance items. And I think on Slide 41, that's a pretty big number. I mean it looks like it's actually more than the portfolio changes. So like something like $1.5 billion plus, maybe even $1.7 billion. But you mentioned that kind of $300 million to $400 million is rolling off. First of all, what else is in there? And then where are you reflecting the corporate cash number? Could you give us a little bit of color on that? And within that and also within the P&L corporate, do you guys eliminate spare engine sales from CFM to GECAS given that CFM is a third party?

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

Steve, I -- with respect to the inheritance taxes, again, we've got a number of nonoperational cash calls or cash flows there, really more in -- relating to historical working capital programs, some of the re-baselining of the cost structures, if you will, elevated restructuring in some of those businesses and some of the cash liabilities, the outstanding liabilities in and around the Alstom acquisition. So those are, in many respects, again, not operational in nature. We think we've got very good line of sight. In the 1.5 years that I've been here, we've done what we can to work those down, but they have basically been playing out as anticipated.

**David Leon Joyce** ***General Electric Company - Vice Chair***

And the only thing I'd add to that, Steve, is that we also have investments in there, which you can see on the slide. So that includes elevated levels of restructuring in BD, which is important to note. On your other question, we only, on spares, eliminate the GE portion of it at a consolidated level.

**Operator**

From Melius Research, we have Scott Davis.

**Scott Reed Davis** ***Melius Research LLC - Founding Partner, Chairman, CEO & Research Analyst of Multi-Industry Research***

Larry, I think I asked this question a year ago, but I'm going to ask it again. The Healthcare free cash flow conversion rate, this kind of midpoint 90%, is there any structural reason why they can't be higher? I mean I would just think at some level, on a beginning stages of a lean journey, that number could be higher in the early years.

**Kieran P. Murphy** ***GE Healthcare Inc. - President & CEO***

You're absolutely right. There's no reason why it can't be higher, but it's -- over time, I think what you're seeing across GE, including GE Healthcare, is a cultural change around the implementation of lean. And we're seeing that being done successfully in our business. I gave examples of where we're doing lean workouts in the business. We have an example from our MR plant down in Florence South Carolina, where, just one example, we did a lean workout in the warehouse. We see the implementation of kanban and supermarket within that warehouse delivering up to $10 million of reduced inventory. And I think that's just one small, simple example of the type of thing we're doing.

So we've had steady progress over time. Clearly, in 2019, there was some suppression because of the way we changed the accounts payable and factoring, as I mentioned in the presentation. But as we see steady improvement into -- through the rest of '20 and into '21, we see continuous improvement here being a high priority.

**Operator**

From Vertical Research Partners, we have Jeff Sprague.

**Jeffrey Todd Sprague** ***Vertical Research Partners, LLC - Founder & Managing Partner***

Larry, on your kind of closing comment there about the high single-digit free cash flow margin, should we think of that as kind of a 2022 target at this point? And would we then -- given what you said about inheritance taxes as rolling off, should we think about that as kind of an all-in free cash flow kind of as reported, not on an adjusted basis?

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

Yes. Well, I think what I said, Jeff, was that, again, the conviction is very high in that high single-digit cash yield number over the long term. So I think, quite deliberately, we didn't try to circle this year or that year with that in mind. But I think, as Kieran has just highlighted, and we really see this across the board, we think all of the businesses can drive good cash flow growth, in part, given the growth that we see on the top line, the fall-through and just a better attention to the cash fundamentals across the businesses, be it some of the shop floor instances that Kieran referenced, just given the way we underwrite and execute projects in Jérôme's business as well as in Power with Scott and Russell. I think David alluded to some opportunities as we continue to grow our best cash generator in Aviation.

So I think when you put that all together, we need to demonstrate that we can do this over time in a sustained way. I think we're off to a good start in that regard, but we'll circle a point in time, Jeff, as we get closer and as we have more progress behind us. But at this point, again, I think we're going to share the near-term targets and express as much conviction around that progress and momentum as we can.

**Operator**

From Wolfe Research, we have Nigel Coe.

**Nigel Edward Coe** ***Wolfe Research, LLC - MD & Senior Research Analyst***

Kind of a lot of ground already, Larry, but this is probably more a question for Scott. So in your build for 2021, maybe 2022, are we achieving breakeven on equipment and project execution? So I think you said high single digits of Gas Power systems margins, but would that encapsulate breakeven for equipment?

And then secondly, obviously, we've seen a nice move into positive free cash flow for Power. Is there any reason structurally why Power cash conversion can't be close to 100%?

**Scott Strazik**

Thanks, Nigel. I think to start, high single digits for Gas Power in total, grounding off of last year's numbers in mid-single digits, there's multiple components. The first is that we're going to get a lot more structural cost-out that will drive 2 to 3 points of accretion. We do look at the equipment business and see where we are today, that last year was a low single-digit margin business and seeing that accrete up to mid-single digits over the course of 2020.

You think about opportunities in this business to drive product cost-out. And I take the example of Greenville, where we're going to make a 7HA.02 every month for the next 2 years. 7HA.03, we're going to make every month in Greenville for the next 2 years. We have more consistency in flow. At the exact same time, we're implementing lean that gives us high confidence we're going to get more product cost-out. At the exact same time that we talk about our project backlog and the $8.5 billion of backlog, in which 90% of it has been underwritten since '17, in which we're comfortable with these deals, we like these projects and feel like we can accrete margin versus dilute margin because, as we showed on the page, our contingencies, as sold, have grown from 1% to 3%. And with that, when we do our job in the field, we do expect to accrete margin. So when we think about the Gas Power business in mid-single digits last year accreting up to high single digits, structural cost is going to play a role. The equipment margin accreting is going to play a role, as will services.

As it relates to the high free cash flow conversion within Gas Power, as we talked about, we made progress last year. We're highly confident we'll make more progress in '20. Structural cost, collections playing big roles in that.

And then, ultimately, as the inheritance taxes do drop off in '22, there's absolutely no reason we shouldn't be holding ourselves to that higher bar with high cash conversion.

**Operator**

From Morgan Stanley, we have Josh Pokrzywinski.

**Joshua Charles Pokrzywinski** ***Morgan Stanley, Research Division - Equity Analyst***

Larry, if we strip out all the moving parts, and there's certainly a lot of them in Aviation, certainly with the MAX and the timing issues there, COVID-19, other working capital issues, what would you consider to be kind of normalized free cash flow for Aviation this year? I just know there's a lot going on, so I want to make sure we're using the right starting point as a bridge for the future.

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

Sure, Josh. I might throw that over to David since he's here to talk about how we think about sustaining or growing free cash this year given all those headwinds, but also longer term, the opportunities, we think, to do more of that.

**David Leon Joyce** ***General Electric Company - Vice Chair***

Yes. Yes. Thanks, Josh. Great question. You can imagine, with the fluidity of the year, we're laser-focused on our cash performance. So let me just take you through how we think of it. The allowances carryover. That was a tailwind for us for '19. That's been incorporated in the guidance since the beginning of the year. So no change in that at all.

Relative to COVID-19, as you've heard, we're guiding for the first quarter, and we look at that at about a $200 million to $300 million headwind for us in 1Q.

And then if you look beyond that, there's really 3 drivers on the cash performance for us. First of all, it's this improvement in working capital, which is driven by the cash certainty we have on LEAP engines and the inventory reduction. You've heard people talk about lean and what lean is doing inside every one of the businesses. For us, lean is getting these delinquencies down, which you saw in our military performance, as well as being able to reallocate some of the capacity from the LEAP program into some of the other constrained supply, which is all upside for us.

The strength in the commercial aftermarket continues. As I tried to indicate on the commercial charts, you're talking mid-single digits in services, and we're in a good maintenance cycle. It's just that simple relative to the engines, and the shops will be again up in 2020 and beyond.

And finally, the volume growth in Military. We're, again, reaffirming the growth trajectory, and that looks terrific in 2021 and beyond as well. So that's kind of the way we're thinking about it.

**Operator**

From RBC Capital Markets, we have Deane Dray.

**Deane Michael Dray** ***RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment***

Sticking with David Joyce, if we could. David, how are you protecting your production capacity and supply chain for the LEAP until MAX returns to service? Maybe just share some of the steps that you're taking. And is there any way to size what kind of drag that, if we would call it, underutilized capacity is on the business, at least for the first half?

**David Leon Joyce** ***General Electric Company - Vice Chair***

Yes, thanks. Let me tell you how we're thinking about it. Look, this is, again, great question. So to start with, we've adjusted our volumes consistent with the realities of production, and we flowed those adjustments throughout the supply chain. That includes rightsizing the LEAP-1Bs for Boeing and increasing, quite frankly, the Airbus LEAP-1As, consistent with an increase in the 2020 production demand out of Airbus.

Now the harder part of your question is how do we maintain the continuity of that entire supply chain so that we can respond to the ramps in Boeing production, which we know are going to happen at the end of '20 and '21. And so the goal is to create a build plan that has reasonable production steps throughout the year so that we can protect that growth in the MAX in '21 and even beyond '21.

With that in mind, inventory for all of 2020 will be down on a full year basis. And we have to pivot some of that capacity into Military, into eroderivatives and into spares, where we have delinquencies in the business. So we're working with our supply chain every day to see how much of that we can pivot, and that includes in our own shops as well. So taking advantage of the capacity from LEAP to actually improve our fulfillment in areas where the supply chain has been constrained. So that's the right way to think about what we're doing with the MAX.

**Operator**

And from Bank of America, we have Andrew Obin.

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

Yes. Question is, what would a similar breakout look for legacy Gas Power services contract? And just maybe a little bit more detail on how much of the free cash flow turnaround if these projects rolling off versus the work you're doing in other parts of the business.

**Scott Strazik**

Thanks, Andrew. We'll have to get you the exact breakout of this $55 billion CSA backlog that's, call it, pre-'16 or pre-'17 and beyond. But generally speaking, within that $55 billion backlog and you look at the CSA activity and the strength of the asset, we feel great about it. The reality is our utilization globally was up 2.5% last year. That drove $400 million growth in CSA billings '19 relative to '18. We look at '20 and we expect our CSA billings to grow another $200 million. So this is a strong part of the asset. And then when you think about the remixing that's happening with the CSA book, the reality is a lot of the CSA contracts that are being added are with HA machines. And the reality is these HA machines are running 7,000 to 8,000 hours a year. We have 43 that have gone COD so far. 550,000 operating hours. So we're adding HA machines with very high utilization because they're replacing coal in nuclear, and they're the most efficient machines on the dispatch curve that are playing out in comparison to our F-class machines that, on average, have historically run 4,000 to 5,000 hours a year. So you're adding assets that are running more, high utilization, growing CSA billings in an asset that we are very confident in and working every day to make more valuable.

**Operator**

Thank you. We'll now turn it back to Mr. Winoker for closing comments.

**Steven Eric Winoker** ***General Electric Company - VP of Investor Communications***

Thanks, everybody. I want to thank our business leaders for joining us here today, for investors. It's really helpful. Carolina, welcome. Looking forward to having you on future calls. And thank you to everybody for taking time out with us today. My team and I will be available to help from here. Thanks.

**Operator**

Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for joining. You may now disconnect.