GE

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Joshua Pokrzywinski: All right. Good afternoon, everybody. Thanks for joining us this afternoon. Joining me on stage, we have Carolina Dybeck Happe from General Electric. Really appreciate you taking time. Pleasure to see you. Pleasure to see you in person out here, now that we're back live. Maybe if you want, we can start off with a few opening remarks, what you're seeing out there from GE's perspective, then we'll dive into some Q&A.

Carolina Dybeck Happe: So really happy to be here live, in person. So much better. I'm also really proud to be here to present GE at this, I'm going to say transformational point for the company. As I think most of you know, we are separating into three strong, standalone, investment-grade, industry-leading public companies. We're going to have three leading franchises. And if you look at the sectors we're in, they're all growing and really critical for the world. If you think about it, what would be more exciting to do than continue to drive innovation for sustainable future of flight, drive precision health care and the energy transition?

So while the teams are really focused on delivering here and now, both for customers as well as investors, we are also really focused on delivering longer term value. And if you think about it, it's probably one of the largest things in corporate America. And why are we doing it? Because we are convinced that this is going to be so much better for each of the standalone companies. They're going to be focused, they're going to be more agile, and they're going to be more customer oriented.

Speaking about the performance, we're just off a strong second quarter. You saw we had organic growth mid-single digits, we improved profit, and we were cash flow positive. And the businesses are very, very focused on delivering our top line growth as well as doing it through innovation. If you think about where we are now, I would say that the innovation that we have invested in for years continues to pay off.

I have to give a couple examples. I was just at the HealthCare ops review, one of the last they're going to have in this construct, and we talked about different innovations. The product that the team shared with us, of course they have some better pictures when it comes to sort of the precision, both in ultrasound, we're talking about MRs. The reality is they're also much more productive for the customers. So we talked about productivity. 50% more productivity for the customers compared to the old solution. So not only better pictures, but also much higher productivity, which end to end is a better value proposition for our customers.

Supply chain continues to be tough and continues to impair our ability to deliver to our customers. But we are super focused on controlling what's controllable. And it's really about the actions and how actions drive impact on our priorities: improving our quality, improving our delivery, increasing price, improving costs and cash.

If you look at where we are now, how do we do that? Well, we continue to drive the transformation through Lean and decentralization. If you talk about Lean, you've heard us talk a lot about Lean. And there are a lot of different ways of impacting a business through Lean. But I'll give you one example, because I just came back from Aerospace, and we talked about kaizens. So we have had kaizens across the world in all of our different -- oil is probably a big one, but in many of our different sites. What we're doing now is actually inviting our partners as well. So in Aerospace, the team were doing kaizens together with our suppliers. Because together, we looked at the processes end to end, and that's created more capacity, and therefore we could deliver better for our customers while also improving our productivity.

So really, also looking through our -- I would say as we continue to decentralize, also, one thing is that we get closer to the customer and the accountability, it fits where we believe it should fit. But it also gives us opportunities to streamline our structures. And I would say, more than only the numbers, it also is a matter of driving cultural change. Because when you work through Lean, it's really all about continuous improvement. And with continuous improvement, that is something we are ingraining in the GE DNA. And that culture is also something that each of the spins are going to have with them when they stand alone.

And just a final word then on spins and where we are. Well, there are a lot of things going on, and you saw some of that with what we shared with you. And this was a big week. We shared that we have a HealthCare board with everyone. We also confirmed that we are going public with HealthCare the first week of January in 2023. Hard to do it much earlier in 2023. We've also worked on our Form 10, still a confidential version, but you'll see the public one in a month or so. And I'm sure you'll see really exciting story about HealthCare and a double click into the modalities of HealthCare.

Finally, I would say we have a dedicated team. We have highly energized leaders. We have a clear path to spinning the three companies and setting each of them up for maximum future success and all three with bright futures. And with that, Josh, I'll hand back to you for questions.

Joshua Pokrzywinski: Perfect. I really appreciate that overview. I think maybe just to sort of bring it into the near term briefly, if we could. A lot of moving pieces in the economy right now, to put it mildly, and certainly in GE's markets as well. Maybe just give us an update on what you're seeing here in the third quarter across the business and some of the -- kind of the KPIs like cash, anything that you can share with us would be helpful.

Carolina Dybeck Happe: Yes. Sure. I talked about the second quarter. A little bit of color then into the third quarter. We've talked about how we expect to have mid-single digit organic growth in the third quarter. We've also talked about timing between the second quarter being stronger than the third when it comes to earnings. I'll come back to that. And when it comes to cash, I would say that what we are seeing with the continued supply chain pressures, we are continuing to see deliveries move later in the quarter. So we would expect free cash flow in the third quarter to be in line with the second quarter or slightly better than that.

And if you look -- take that one step further down, if you start with the 2Q, 3Q dynamic, we talked about it at earnings that there was some timing. Some of it is more, I want to say, lumpy. So for example, we had expected EHS to be higher in the second quarter.

That moved into the third quarter. But then there were also a couple of other things. Particularly within Aerospace, we had also expected to get more OE out, more engines out. That moved to the right, which has a negative impact on the profit. We also saw really strong spares sales, so that was positive. We also had a good mix even within services.

And finally, that's more of a seasonality when you talk about Power. So basically, the second quarter is generally stronger than the third quarter, so that we expect to repeat also in the third quarter.

And if we look then at what we're seeing also on the cash side, basically I would say the combination of keeping the top line and bottom line, but delivering it later in the quarter means that we see some pressure on the cash flow. And that's why we expect it to be in line or slightly better for the third quarter. There's also some of the renewables orders that we wouldn't expect to happen in the third quarter, also moving to the right.

And speaking of renewables, we've also talked about how Scott and the team are working to go through sort of structural costs and continue to take that out. And we've also talked about how the team is working really hard on proactive durability actions and sort of scoping that and sizing that. And we're working that through the quarters, but I would say overall, we would expect that to put pressure on the year as well.

For the fourth quarter, it's going to be a big quarter, then. We do expect to see strong growth, organic growth both from Aerospace and HealthCare, a bit of a catchup effect there, as well as a big transactional services quarter for Power. So overall, low-double digits growth, really healthy drop-through on the mix there. 100, 200 -- and high cash conversion rate. We always have a high cash conversion in the fourth quarter, but here you sort of have a bit of the catchup effect of the delayed billing late into the quarter. So that's overall where we get.

Joshua Pokrzywinski: Got it. And on that cash dynamic, I appreciate that sort of missing by a day means missing by a quarter. And when you get down to the end of it, do you think you end up at the same spot in the year, and just sort of the geography of the cash 3Q to 4Q is a little different? Or does some of it leak out of 4Q?

Carolina Dybeck Happe: I think with what we are seeing, we're going to have to -- we're going to do everything we can to deliver for our customers. Exactly how that pans out in this volatile sort of situation, I would say we'll have to wait and see exactly where that lands. But we do see the trends continue from second to third quarter, and for the fourth quarter, it's a bit early.

Joshua Pokrzywinski: Understood. I appreciate that. Let's pivot over to supply chain, if we can. You talked about it a little bit in your opening remarks. I think the aviation world's kind of well documented that that's kind of where the supply chain is maybe tightest relative to other industrials. What are you seeing right now? How do you think about maybe the timeline for resolution? Or any sort of big, moving pieces or watch items that would move you one way or the other? It sounds like a lot of it comes down to components and castings and stuff like that. But what do you see as kind of the current state and the path to resolution?

Carolina Dybeck Happe: Well, it's a bit different between the different businesses. But if you start with Aerospace, which we have talked about, to your point, there's clearly still pressure from supply chain, castings, forgings, repairs. But also direct labor or skilled direct labor. We have to remember that in aerospace, we're looking at a huge ramp. That's great. But it's still pressure both on direct material and on direct labor there. And I would say, working with our suppliers and with our customers, and a lot of that is sort of self-help, but we do expect to see significant growth in the second half for Aerospace.

On the HealthCare side, the team has had a tough couple of quarters, not from the demand side, since we have strong demand and strong backlog, but the output has been clearly impacted, 7%, 8% top line. And also with the team there, when we talked to the team last week, they are seeing improvements, and they do expect to see significant organic growth in the second half and then continue to see that through next year as well.

I would say on Power, we see less impact of that, but it's a bit delayed because of the longer cycle. So you'll sort of see that later. And in renewables, same pressure on the raw materials side with the direct materials side. I would say logistics, a bit better in some parts of the world, but still pressure. So overall, some areas of positivism, but a lot of it is self-help to deliver the year.

Joshua Pokrzywinski: Got it. Just sticking with aviation, I think looking back to 2Q, shop visits came in a little lower overall. Performance was really high in commercial services. There are a few things like spares and a few other items that kind of drive that gap there. How should we think about that performance balance over the rest of the year, kind of the shop visits maybe catching up to the rest or some of those other items that helped out being a little bit more episodic?

Carolina Dybeck Happe: So, you have sort of the two dynamics. You have the OE and then you have the services and the aftermarket. And if we look at the second quarter, when we talked about the strong growth in the aftermarket, I would say shop visits for the year, we are expecting to come in high teens, which I would say is a little bit lower than we thought. But on the other hand, we've also seen strong spares. So overall aftermarket, we would expect to get to the 20%.

On the OE side, we're doing everything we can and working to improve especially the LEAP deliveries, so the volume for LEAP in the second half. I would say though that overall, we are expecting that pressure to continue. But in total for Aerospace, I would say the top line we still expect to growth with more than 20%. And therefore, with a mix sort of on the aftermarket versus the OE, we are expecting to get mid-teens of margin for Aerospace in 2022.

Joshua Pokrzywinski: Got it. And not to require you to speak on the other half of your CFM partnership, but is supply chain kind of amongst kind of the CFM venture, more challenging for GE, more challenging for Safran? If you were to sort of look at the output on LEAP, is that something that the governing effect of that comes more from your side or someplace else?

Carolina Dybeck Happe: I think what is happening, and it's truly great to see, is that the whole industry's coming together, and it's both our suppliers as well as our customers and how we're working together to solve for the bottleneck. I don't want to speak for them specifically. I would say overall, everyone is in this together. And it's very well aligned, and everyone is really trying to do what in the end will get happy customers.

Joshua Pokrzywinski: Got it. And I guess just same observation on the military side supply chain and some of the throughput issues there have been kind of a headwind for a little over a year now. Any progress update there? How do you think about sort of the path forward? Because demand is super healthy. You've won a lot of business. Unfortunately, we just got to get it out the door.

Carolina Dybeck Happe: I'd rather have that situation than the opposite, though.

Joshua Pokrzywinski: 100%.

Carolina Dybeck Happe: What I would say is when we look at supply chain overall for Aerospace, I would say both we and others in our industry have talked about that it can take up to 18 months before it normalizes. And military is part of that as well. We've talked about it sort of the, probably the toughest parts are tier 2, tier 3 suppliers and really making sure that we support there.

For the military specifically, we have both the external challenges, but we also have internal challenges that we're working through. And I would say in the second quarter, as we were going through implementing the improvements, we did find a couple of new issues that the team is working through. But overall, we are expecting sort of see the impact of that and have much better growth in the second half for the military. And overall when it comes to the demand, as you said, demand is strong. We continue to see that. And now the focus is really to deliver for our customers.

Joshua Pokrzywinski: Got it. And then I'd like to jump over to renewables, which has kind of dominated the headlines for you guys with kind of more challenging markets, but not a lot of action going on with the IRA. I guess first, how do you see the IRA flowing through the business, whether it's timelines, kind of order of magnitude of benefit and maybe anything beyond just kind of the PTC extension that is particularly encouraging or nice to see in there.

Carolina Dybeck Happe: Yes. Let me start by saying that we see IRA as, it's great, and it's going to be great for driving demand in the mid to long term. We expect to see really good growth for at least a decade in the U.S. on this topic. I would say shorter term, we're still focused on driving the turnaround of the business and improving the business. And then we expect -- the decision is made. You need to implement Treasury's decision. Then it's going to be about the permitting. Then depending on when the customers with the price and inflation. So I would say overall, we would expect that to start to impact our numbers in, say, at least -- well, 6 to 9 months from now.

But I would say, if you look at what IRA stands for and where we are at GE Vernova, it's a really good fit. We're talking onshore wind, offshore wind, manufacturing, sort of our footprint in the U.S., hydrogen, nuclear, hybrids, the grid. We really hit most of the areas there. So it's going to be great for U.S. and the energy transition, and it's going to be a really -- it is a really good fit for GE Vernova. It also gives us even more confidence in the turnaround and being a strong company there in mid-20.

Joshua Pokrzywinski: Just to sort of understand the timeline there. History would sort of say maybe the orders and some of that initial progress comes in next year, and kind of the more deliveries are more like middle part of the decade. Is that a fair way to think about it?

Carolina Dybeck Happe: Yes. If you think about, if it starts to impact 6 to 9 months from now, that would be the first part then. But again, it's not only up to us. It also depends on where our customers are. But it's going to be something very valuable for us for many years to come. And GE's going to continue to play an important role in the energy transition, especially with a U.S. focus.

Joshua Pokrzywinski: Just on the margin journey there, obviously starting from a low point right now. I think a few things sort of stand out. One, obviously steel's come down a lot, resins have come in. Pricing in the backlog is probably still going up. Not that you guys are going to stand around and do nothing and let those things play out in a vacuum. Clearly, there's other restructuring and cost takeout that are going on. Is that sort of a low point on price cost that we're kind of living in right now and you start to get help from the input side shortly? Or is this kind of like the new normal on price cost for a bit?

Carolina Dybeck Happe: For renewables?

Joshua Pokrzywinski: Yes, for renewables.

Carolina Dybeck Happe: I would say when you look at renewables, you sort of almost have to unbundle it to look at the different pieces here. So we have the onshore wind, we have offshore and we have grid. And when we talk about the businesses, they're also very different stages. You have the grid business. We're getting close to -- we've talked about how we expect that to be positive and the turnaround sort of to be breakeven next year. Good path there. Parts of that are really healthy as well with grid automation.

I would say on the offshore side, more of an investment. Still getting to be a business. We do see inflationary pressures there, and we're working to make sure that we increase prices there as well. And that sort of leads to with onshore wind. And I would say in onshore wind, you talked about the volume. We know that you have the U.S. side and you have the international side. And on the U.S. side, it's sort of a volume low now, especially now with the IRA coming. But that said, the focus now is to really bring onshore wind first to breakeven and then to profitability. If you look at renewables as a whole, it's probably two thirds of that turnaround is really in onshore wind.

And you talked about price cost. That is part of it. But I would say it's a bit like -- Scott talked about how we use sort of the Power playbook and how we apply that on renewables and on onshore wind specifically. So it starts with sizing the market for us and saying, okay, for onshore wind, we're talking about 2,000 turbines per year, and that's how we're going to size it. And then on top of that, it's working the supply chain actions. And I would say there are many different tools in that toolbox there. Everything from sort of how we source, shield casting, what countries to be in. Also because of some the logistical footprint, how do we optimize that? So a lot of work to improve on the cost side.

I would say also working with Lean and productivity is big here. But then also really important is what we've talked about on the product side, also about the durability and working through the different solutions here and making sure that overall, we have a stronger solution for the future, and that does put some pressure on this year. But it's -- I would say it's a sprint now to get to breakeven. And then, especially in combination with the IRA, we do have confidence in getting to mid-single digits there by the mid-20s.

Joshua Pokrzywinski: And if I think about some of the kind of moving pieces along the way, not necessarily specific to onshore, but maybe kind of thinking about renewables as a whole, I would presume that given this year, there's probably going to be a bit more restructuring that you might undertake. If you're running the Power playbook, that seems to be kind of a code for maybe a bit more restructuring to come. And then I think you have this offshore injunction. How should we think about sort of the order of magnitude of what those two things could look like? I know they're unrelated, but just in terms of how they influence that path to breakeven.

Carolina Dybeck Happe: Well, I would say, continued restructuring, it's more about continued decentralization and then seeing sort of where the opportunities are to take structural costs out. That is something that we are working through, and we'll share that when we're ready to share it.

So we're going to share that relatively soon on that one. On the offshore side, I would say it's both offshore and onshore. It's really making sure that we strengthen the product offering and the durability of the products. And yes, we do expect that to impact this year, but it's going to be a great benefit going forward. And especially if you think about volumes picking up, you really want to work on the solutions when you have lower volume.

Joshua Pokrzywinski: Understood. I don't want to leave HealthCare out. Obviously, one of the businesses that has really good long-term kind of platform, even though supply chain has hit that more recently. If I had to think about that path to normalized margins, normalized growth, things like that, how much do you think is sort of reliant on getting over the hump on managing inflation and pricing in the market versus being able to get product out? Do they go hand in hand? I know that they can't be totally separated. But is this an inflation story or really more of a supply chain throughput story?

Carolina Dybeck Happe: Well, I would say like this. Pete and the team asked -- they are standing up this standalone company -- are taking sort of a good look at all different dimensions here. And challenging some of it as well. I would say the big bucket, though, really starts with the volume. Because when you look at our margin and you look at the last couple of quarters, again, the top line -- with strong demand on the top line that is 7%, 8% lower than it should be. Really, that kind of volume for a healthy business drives a lot of good OMX and a lot of good margin expansion. So I would say that's a big one.

On top of that is also price. That's not necessarily something that HealthCare has worked that much with historically. But if we look at where we are now, two quarters ago, I shared with you that we were positive in the order book as a total on price for HealthCare. And last quarter was the first quarter where we were positive. You saw that in revenue. But that also means that there's much more coming there. So pricing is also an area where we expect to continue to see stronger impact, and therefore, also that goes directly to the bottom line.

I spoke a little bit about the new innovation and the new products, which also means that there's a mix shift sort of driving towards higher gross margin products. That also helps on the margin side. And then it comes sort of the other part of the equation is then on the cost side. And here it's a different area. I would say productivity is one. But the other one is also sort of having a look at what does the footprint look like? Where are we? What are our platforms? To relate all of them, all the variants of that. What about the SKUs? And then also geographies.

So if you put all of those different opportunities on cost out, you can put all of them to the bottom line. But that is not what Health is going to do. They're going to continue to invest in R&D. So some of that sort of cost out and cost improvement, we're going to continue to invest in R&D because that's what's going to drive future organic growth, which in a way, it's definitely going to be the best for the business a whole. And I think that's also how Pete and the team when we talk to them, this is also how they see a path to have mid-single digit sustainable organic growth as well as margins that are high teens to even 20.

Joshua Pokrzywinski: Got it. That's very helpful. And that'll help close that gap between that $3 billion today and then kind of the $4 billion or the entire --

Carolina Dybeck Happe: Yep.

Joshua Pokrzywinski: Just spending a minute on gas. It went from a market where everyone thought it was dead a few years ago, and now we have all these kind of energy security concerns and obviously Russia gas being super topical. How does that change your view of the market? I guess maybe starting with Europe, but more broadly, how does this business look in terms of gas's mix in the equation?

Carolina Dybeck Happe: Yes. You can say that the situation in Europe is really -- it's really a special point in time for Europe. And I would say that the energy situation particularly and the independence of energy is very high priority, clearly. I would say for us, we're here to help our customers. So we will help them if it is building more renewables, if it is moving from coal to gas, or if it's innovating on the grid or other solutions.

When it comes to gas power specifically, I think what we are seeing is that if you look at the resiliency of gas power in this, you'd have to say very volatile times, it's shown where it really sits on the dispatch. And I would say our view was always that gas power has an important role in the energy transition, and it also has an important role in solving for the energy trilemma. And our view hasn't changed on that. And we are -- we continue to sort of size the market to 25 to 30 gigawatts. We also continue to expect to see growth in gas utilization in low-single digits for the next decade.

Joshua Pokrzywinski: Excellent. Two more questions from me. I guess first on working capital. I think a lot of companies, most industrial companies are seeing that as a drag to free cash conversion. Given that you're longer cycle, do you expect that to be something that stays around longer, say, into next year on the working capital side? You still have a couple businesses that are growing quite strong. Obviously, Aero has a lot of tailwinds now, new IRA tailwinds for the renewables piece. Is that something that's going to cause that working capital to sit around longer, or are we kind of at the run rate that we need to be to support where the business needs to grow?

Carolina Dybeck Happe: Well, if you take a step back, so in 2021, it was a significant positive impact. We continue to expect it to be a significant positive impact in free cash flow of 2022 as well. And we continue to expect that for 2023, but less so than in 2022. What you see is we talked about that last quarter how we -- because of the delays in billing and sort of how everything's shifting to the right, including though part of it was on renewables as well, we said that we would expect about $1 billion of working capital to move out of 2022 into sort of 2023.

Are we where we can be from an optimal perspective of working capital? No, absolutely not. I don't think we ever will be when the times are the way they are with the supply chain. So I still think there's a lot of opportunity in here, but it's going to take longer to realize that. What I would add, though, is that when you look at the cash flow for 2023, we've talked about how we expect both profit and cash to improve significantly from 2022 to 2023. And when we look at the 2023 number, the majority of the cash that we expect to generate is going to come from profit.

Joshua Pokrzywinski: Got it. That's an important distinction. Then last question for me. Obviously higher interest rates are exceptionally topical right now. You have a few points of the business that sort of like higher interest rates, unlike most businesses out there. How do you think about long-term care and pension in this rising rate environment? And anything that maybe structurally that is available to you or interesting as we're in this environment?

Carolina Dybeck Happe: Yes. So if you start with higher interest rates, it's positive both for our pension and for our insurance book. That said, though, we're in a very different position compared to a couple of years ago. So therefore, the impact is much smaller, which is definitely a good thing. Pension is stable. No more money in there for I would say the foreseeable future. And on the insurance, it's really about I would say about reducing risk and running it better.

When it comes to structural solutions, I would say we're open -- open to suggestions. And if something comes around for the whole, or even part of it that makes sense, I'm going to say from a bid-ask perspective, because I would say our ask is also different compared to a couple of years ago, considering where we are. But if something that makes sense come up, of course we would look at that and work with that.

Joshua Pokrzywinski: Excellent. Carolina, I see we're at time. I appreciate the time. Thanks for making the trip out here. I know you're busy and flew halfway across the world, so we really appreciate it.

Carolina Dybeck Happe: Thanks for having me.