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Okay. I think we'll get going with the last presentation now. This is the last one, so please give me any suggestions for next year. In the break just now someone told me we have to make this two days and extend the first two days to 6 p.m. The next person said, you've got to cut Monday and Tuesday so they end at 12 p.m. So the next 360 days, I guess, I'll look forward to reconciling that. The next company, I think, is fairly familiar with squaring different circles. You've got adjusted earnings, GAAP earnings, cash earnings.

So on that note, I'll introduce Jeff Immelt.

<<Jeffrey R. Immelt, Chairman & Chief Executive Officer>>

Julian, thanks for the intro. By the way, my suggestion is new location. Is there a way given that one, but I've been trying that one for a long time and it hasn't worked. So look, I think committed to having a good, solid year, gaining share in our markets, balance sheet capital allocation on track for the commitments that we've made. Leadership team really focused on really all the AEIP and LTIP, really focused on the bridge and investing in the things that are going to be quite important for the future in both digital and additive. And that's the main headlines.

Look, nobody likes how the stock's traded so far this year, but it's up to us to execute, and that's what we're committed to doing. This is the world. I think you've heard this week kind of the business outside the U.S. is quite strong. U.S. gets a little bit better each day, still the ability to get deflation we see in our markets. Pretty good, I would say, positioning against the things that matter in terms of cost out and productivity. On the other side, resource markets are still challenging. That has an impact across a couple of our businesses, pricing pressure in some of the equipment markets.

And I would say the say the Healthcare business is booming outside the United States. It's okay in the U.S. with some of the geopolitical aspects of what's going on in the government right now. No change in, let's say, the segment-by-segment context for this year, pretty much what we talked on the Outlook Meeting is really what we're seeing. Again, we've seen, I would say the oil and gas markets stabilize. We see orders improving, but it's off a low base. So I still think we have to underwrite caution in that space.

Other than that, Aviation is pretty good. Locomotives is we thought it was going to be. Wind is good. So puts and takes across the portfolio, but really in line with kind of how we viewed this year going. This is the framework that we put together at the Outlook Meeting for earnings per share, for kind of cash flow, cash return to investors, really no change in the context of how we think about the framework for the year. The three things we're going to talk about today and really delve into is, one is kind of where's the portfolio and what are the actions and how to think about that.

The second was just how do you underwrite 3% to 5% organic growth, 100 basis points-plus of margin enhancement and high-quality earnings from a free cash flow standpoint. And the third thing is kind of what's the status of the bets we've made in digital and additive. And those are the three things we're going to go through in the presentation. So look, we've done a ton of work around the portfolio. I would make a couple of points here. We are big in what I would call four big ecosystems. We're big in power, Healthcare, transport, resources. We've got leadership positions, diversified positions across all those.

We've really tried to, I'd say, narrow the scope of the company. We've launched a couple of things that I think are going to give us bigger pools from a profitability standpoint, GE Capital as a horizontal, additive as a way to capture more supply chain value, additive as a way to create more customer value. These are really the, what I would call, the horizontal platforms that makes the company more valuable and deeper. This portfolio has delivered over the last five years, pretty good earnings growth. We've returned a lot of cash back to investors. The CFOA plus capital has been quite strong, so it's delivered.

And the way I would think about this is, we've got a big moat around these businesses, huge backlog. The replacement value of the GE assets is like $2 trillion, tremendous global footprint, 180 country global footprint. NPI investments already made big digital and additive franchises. So I would say much simpler portfolio, much deeper with a big moat. And if you'll just look at the last five years, have delivered for investors. Now this has taken work. I would say on the left-hand side, we've done probably more big portfolio moves over the last three plus years than in any time in the company's history.

Alstom and Baker Hughes both on track, big moves in GE Capital. We've disposed of smaller businesses that really didn't fit, I think, these big ecosystems. Sometimes to simplify, you have to go through a period of complexity. I think that's kind of what we've gone through in the portfolio side. We've made investments in the supply chain. The way I would think about that is LM. Basically, if we just do margin recapture on LM, it pays for the deal.

So all of the external markets of these backward integration plays we get for free. So there's really good opportunities, we think, to grow margins in this context. And then the bets we've made in Digital and in Healthcare around new technology, I think, rounds out the portfolio. I think the point we make here is we've done a ton. Really, our focus now is to kind of wheel into execution, get the integration synergies, things like that, with a simpler portfolio, focus on organic growth, margins, that's really, I think, what's most important as we stand here right now.

Now just a quick update on Baker Hughes, right? So we've had kind of ongoing discussions. And I would still say, we're thinking we should get this closed, let's say, by the end of June, early July, sometime in that time period. The 2020 and the synergies we've looked at. So we've got a bucket of synergies that's probably twice what we show on this page in terms of how think about the business going forward. Look, we see some signs that are encouraging, particularly onshore in the Oil & Gas business, but pricing and things like that are still tough so we're not – it's one that we're kind of cautious in our underwriting around.

And then just making good progress on the organization, the public filings, the synergies on costs and revenue, we continue to make good progress. So I think the message we'd give you on the portfolio is we're pretty – we've done a lot of work. We've got a lot to execute. And I think we're in a mode of more execution now than anything else. The last thing I would say on the portfolio has to do with how it fits with the GE Store and kind of this is the way we look at the Global Research Center in the context of today and we kind of talk about what things we're driving from an interdisciplinary standpoint and what things we drive from a horizontal or lab standpoint.

We've created at the Global Research Center a Variable Cost Productivity Lab. One of the things we're trying to drive inside the company is a heightened focus on product cost, product margins, service margins, things like that. And that's a capability we can drive across the company. We've added new digital labs. When we think about physical and digital analytics, this is really a combination of controls, Edge and how you do APM. And what we're really creating is ways to improve the entitlement of any product in the installed base. And we're driving that across all the GE businesses: Healthcare, Aviation, everything else.

And then an area like composites, which is material science, and the work we do in composites again, we drive across the entire company. So all the things we talk about in the portfolio are a great fit for the GE Store. This is really in full execution and we think allows us to develop superior products to any of our competitors. And so if I wheel into kind of the, let's say, the operational model of the company, I'd start just with the power of technology. And these are two big bets that the company has made, multibillion-dollar bets. And I would say from an investor standpoint, we're winning big in both of them. So on the left is really kind of the LEAP engine.

And I'd say between the work we've done with Boeing and COMAC and now with Airbus, we've really kind of swept the table, if you will, on how the LEAP has done. And the focus now is on costs, really getting down the learning curve, driving the costs down, but our performance advantage is substantial and the positioning, I think, has been quite good. Similarly on the H, we're running about 50%. So if you go to the LEAP, it's 100% at Boeing; 100%, COMAC; 55% at Airbus, but the run rate since January has been substantially above that, right? So on the right-hand side on H, we've got about 50% market share. We've got headroom to get the efficiency up substantially and even in that product, good performance and again, taking it down the learning curve.

So portfolio, GE Store and technology, winning big in NPIs. And I would say, in any time in the last five or ten years, we have a stronger product line across the company as any time I can remember in terms of what we can do and the way we can do it. I think that shows up in Healthcare. Really, I think we've really regained our stride, if you will, in the Healthcare business. On the left-hand side, we show you a bunch of new products that we've introduced, but I would spike out the Senographe, which is the mammo product, which is a place where we had lost a ton of share to Hologic over the last decade. We're now in the process of gaining a lot of that share back.

Life Sciences have amazing performance. In technology, we position ourselves to be a real winner in the cell therapy business as well as continuing to build out bioprocess manufacturing. And that shows up on the right-hand side with expanding margins, better VCP, a real focus on structure and footprint and services, restoring services growth. So we see the opportunity to really have a strong presence in the Healthcare business at the same time. So really, I think good technical progress across the company. Big growth drivers have always been programmatic in the company. So globalization and service are key drivers of how you get to 3% to 5% organic growth.

In the first quarter, our global orders were up 20%. We see strong growth across the portfolio. With the President in Saudi Arabia, $15 billion of GE deals that were announced just this week. I think that's kind of similar to the work we're doing on a global basis. So if you have the ability to do financing and having a great technical footprint has been very important.

Same way in services, big backlog, good orders and revenue growth, good margins. We plan to have a service meeting for all of you in the second half of the year where you can have a good deep dive on all the elements of our service franchise and service business. But I think between services and globalization, we just see real programmatic advantage as a way to underwrite the 3% to 5% organic growth as we go through. The only other thing I'd say on the 3% to 5% organic growth is, we see kind of the underlying Oil & Gas we're starting to stabilize.

I think in 2018, we see a scenario where revenue could be more or less flat and then expanding. But again, off a low base is the way I would think about it and the way I would look at it. So that's on the organic growth side. On the cost side, we talked about at the Outlook Meeting 100 basis points improvement in 2016 or 2017, 2018.

We're still on track on that. I would give you kind of a couple big levers and a couple good ways to think about it. Product cost is key. We've had two of the biggest launches in the history of the company in the H, in the LEAP, in the two and three megawatt wind, all big. Product margins are key, continue to focus on structure, right? So all the restructuring we've done, that's now developing in the run rate.

And I think the third lever is really going to be reducing the digital spend. We've got a couple of levers that we're going to pull in digital. One is, we're going to have revenue next year to offset the cost. The second one is, there's probably still a couple hundred million dollars of overlap between the businesses and GE Digital that I think we can clean up inside the company. And then the third one is, we've had a number of offers from partners in terms of joining us from a funding standpoint. So I think we see ways in digital to really do this more efficiently and save a couple hundred million bucks at least in the digital activity, right?

So then if you look below, we talked about getting $1 billion of cost out in 2017 and 2018. The $1 billion in 2017 is on track right and that shows both the things that go up and then offset by restructuring and expense reduction. And I think the way to think about 2018 is, we'll do better than $1 billion of cost out in 2018 because we'll have all the same activity as it pertains to restructuring and spend reduction. And then I think we won't have the digital growth in 2018, and we'll probably have some offsets in that time period and still be able to execute on the important projects for the company.

So I think we feel good about the ability to drive the incremental cost out in the company over the next few years. This is just a deeper dive on kind of the way we think about product cost. So with the addition of Alstom, the big product launches inside the company. The product margins over the last couple of years have really declined. Going back to from 1% back to, what I would say, our historic run rate in equipment margins of 5%, that's kind of job one. That has to do mainly with learning curve, but also has to do with value gap, the way we run our factories, Brilliant Factory and things like that. And really, those are very much on track and very much things that we think are going to be critical for the company.

And then the right hand side on structure, this is really the output of the restructuring we've done over the last couple of years. We're running the company with more horizontal COEs. We've got good aspect in terms of commercial productivity and other functional productivity. And again, the way I would think about this is $1 billion this year. And then we think the combination of this page with the different way we're thinking about funding digital in the future should give us in excess of $1 billion of cost out in 2018.

And that's the way we kind of underwrite the cost equation for the company. Shifting – so again, 100 basis points plus on margin, three to five basis points of organic growth on a run rate basis. And here's kind of the way we think about cash, right? So the commitment for this year on industrial cash flow is $12 billion to $14 billion. The way to get there is kind of more earnings. We expect to have another probably $3 billion of working capital reduction.

We've got probably still some headwinds in contract assets. And then the other kind of tax payments, compensation payments should be better year-over-year. And this is kind of the walk we do to get to the range on cash flow. Bigger picture and what I want to go through is just how you think about the business model. So we run the company with negative working capital.

We think, we still have $6 billion to $7 billion of working capital that we can take out of the place as it pertains to inventory, receivables, things like that. We've gone through a historic set of launches, mainly in Aviation, on CapEx reinvestments. So we think it's going to go back down closer to one to one. And then we've made an investment in the service assets in terms of driving long- term service agreements, which we think are a great investment for our customers and for our investors and really position us for the long term. So these are the three pieces that really build up the GE cash flow story, and I'm going to go through a couple of them in more detail.

So we generated, we reduced working capital by about $3 billion last year. We expect to reduce it by another $3 billion this year. Progress payments kind of go in and out, if you will. We're doing a good job of extending payables and reducing receivables. That's critical for the company. But the lion's share of working capital opportunities remains in inventory. We've brought in a lot of assets from Alstom.

We've got kind of I would say a longer cycle business model. We got plans in place that are going to allow us to expand our working capital turns. We have a project board inside the company called System 6, which tracks all the projects we have on a very granular level in terms of how we can reduce inventory and where we can go. We've got 130 dedicated audit staff resources inside the company working on it.

And I'd just show you, this is an Alstom example down below on really reducing the cycle time. Generator is a product that Alstom brought us. They were putting into kind of internal consumption 86% decrease in cycle time, vast decrease in inventory, improvement in speed and quality. And we see this kind of being a cornerstone, if you will, of how we continue to drive this throughout the company.

So we think we've got good running rate room, not just in 2017 and 2018, but beyond to continue to chip away at what we would consider to be where the company can operate from the standpoint of working capital. I want to go deep a couple of pages on contract assets. I would make only five points on this page. The first point is, this has been part of the business model for a long time. It's purposeful. It's valuable to customers and to investors. And this is a way to really sustain an amazing customer closeness over a long period of time in a very proprietary way. So the first point I'd make is, this has really been a part of how we thought about having a good installed base and protecting the installed base.

And the second is what makes it grow is a little bit the growth of the installed base itself. A lot of it is the investments we have made in productivity, digitization, we basically have improved the entitlement of everything that we've ever built and made it more valuable to the customers, right? And that has resulted in growth over time. The third point I'd make is, we collect off of this. I mean this kind of shows the line on the asset and the collections. And you need to think about this as being really a valuable part of the interaction. It's extremely high profit.

It also has extremely high returns. The cash flow that's generated over time generates a return in excess of our cost of capital at high margins while preserving the customer. Those are good things. And then the last point I'd make is the rate of growth is going to decline over time. We have gone through an incredibly big cycle of new product introduction, of product upgrades and things like that. So that's really the context I would give you is that this is really a business model. It's something we've managed, accounting that's been long- standing inside the company and the way I would think about this going forward. And the next page on free cash flow conversion. Really, we're trying to give the people what they want, which is kind of all the data and homogenize the way we look at free cash flow conversion and put it on the same basis as you would look at free cash flow conversion.

So I will take four changes. And I just track down any one of the years to say, looking at continuing income, adding in pension funding, adding in capitalized software and I would say kind of taking the noise of gains and restructuring out of the system, right, because this is really going to go down. I view 2017 as the last big restructuring year in the company. So this noise is going to kind of come out of the system. And so when you peer through that, the only thing I'd say about 2016, look in 2016 we launched two big products that were cash pigs. We integrated Alstom. We did a lot of stuff in 2016, right?

So if you think about the company going forward, we would say free cash flow conversion between 80% and 90%. Now we have businesses over 100%. We have businesses that are lower than that. And what tends to swing it one way or the other tends to be progress payments in any given year. So earnings are going to grow. We think contract assets should grow a little bit, but working capital is going to come down. Pension funding is what it is. Plant and equipment is going to come down. Software spend slows. Gain and restructuring is going to come down. And so this is the way we think about free cash flow conversion going forward in terms of how we're going to talk about it, how we'll describe it, and what to think about.

And that just leads into a discussion on capital allocation really for the next two years. So let's say, '17 and '18, we have $72 billion or $74 billion of capital to allocate inside the company. If you add up, what I would call, just the bedrock of the company, keeping it safe and secure, the dividend, funding new products, kind of the first four things, the pension, that's roughly half of the cash we have available to allocate, right?

So the company's incredibly strong from a balance sheet standpoint. You should look to capital allocation decisions around dividend and buyback and things like that. These are things that we're committed to. This shows what's remaining on the buyback, the announced M&A. This is kind of the Alstom, finishing out the Alstom JVs, finishing out Baker Hughes. And there's still probably $8 billion to $12 billion of cash out there to allocate in the future. The other thing I would say is that we tend sometimes to look at – despite all the cash we've got on GE Capital, we're going to get ongoing dividends from GE Capital as time goes on. There's other sources of cash that aren't even on this page as you think going forward. So very strong, very committed to the capital allocation choices we've made, especially the dividend. And this is the way to think about GE and the strength of the company going forward.

Digital is always an important aspect for us. We kind of developed a stack that is really Predix. It is Digital Twins that we've built in the installed base and then it's the applications that matter. When I think about the priorities for us right now, it's really getting Predix out there in the industrial base. We're well on our way of doing that. It's really connecting all of our assets and making the service assets more valuable, and we do that through Digital Twin and Edge. So basically the combination of controls and Digital Twin really give the company tremendous strength. It's really about having ways to grow what we call the apps that matter, which is kind of asset performance management and digital service. We think that's really important.

And then just driving this as a tool across GE, doing Brilliant Factories, doing – upgrading our installed base, and that's really what's important. We should have in excess of $5 billion of orders in software and Predix this year. That will be up 20% to 30%. And I think from an investor standpoint, the way to look at it is, how do you create a faster-growing, higher-margin company? There is going to be a platform that's created around service that's going to be quite valuable and always thinking about return on investment, managing the cost spend, getting the revenue to grow. And I think 2017 is the peak year, and the general margins around digital grow from here, right? So that's the way I think about the digital aspect going forward.

This kind of shows you the way you think about it from an industry standpoint. So oil and gas is an essential industry for us. This is a place where we've rolled out, I would say, a series of applications. The point I'd make on this page is, we've got the business' biggest customers. We've got a pipeline of $1 billion a year. So we're well on our way to developing $1 billion franchise here just in one industry. If you look across the top, all of the onshore products sync up with GE Baker Hughes. So we've got a great suite at GE Baker Hughes that we're going to be able to monetize.

And if you look at the package right in here around asset performance management, this is you get out of, let's say, turbomachinery. If you look at an LNG site, this is how the various applications can be used in an LNG site. So ahead of the competition, driving incremental growth, making the system more productive, I think this is the way to think about what digital is bringing.

The last thing I'd say, look, for us, the model – the most valuable asset to a GE investor is always the installed base, right? And the delivery mechanism of the installed base is services. And so always if you're – as an owner of the company or as you're leading the company, you've got to be able to create this incredible service offense, defense and protection. And what we've here is really, I would say, the definitive – or maybe the way I would look at today, really a world-leading set of applications around services that we now use for ourself and can offer to others. And this is kind of how you schedule service people. It's how you build asset performance. It's how you execute in the field. It's how you do contracting and things like that. And this is generating $300 million, or $400 million, or $500 million of productivity in GE every year. And we're launching this through ServiceMax into the industrial service arena.

So we bought ServiceMax at about a $70 million run rate of revenue. We've kind of grown the prospects to $400 million today. The ongoing revenue is up about 70%, pipeline's growing, focus on non-OEM.

And I would just remind – so when I look at our investment in IT tools, we invest in service IT tools, this, and we make a boatload of money. We invest in CRM and we make a little bit of money. So CRM already exists, we make a little bit. The platforms for service doesn't exist make a ton. So my point to you guys is, this is the mother-ship, if you will, of where digital can lead, and we're in a pretty good spot in terms of how you think about this.

Now I would say while digital is going to drive incremental profitability, additive is going to drive major productivity inside the company. So we acquired a few small companies last year. They're growing at 30%, 40%, 50%. We've got a backlog of about pipeline of about $500 million. We built 200 GE parts. We've done a lot on kind of all the things you'd expect us to do, so establish a product line, add capacity, improve materials, all that stuff.

And then what we're trying to do on the new product side is really, how do you GE-ize this as an industry? How do you build a product line? We're filling up multiple modalities. We're building hybrid products. We're improving cycle times for our customers. All the things you'd expect us to do with a relatively immature industry we're doing.

Now in Aviation, we're working with one company that wants to potentially order 400 machines. In Healthcare, we're working with one company that potentially wants to order 100 machines. And in automotive, we're just making presentations in an industry that wants to buy, but doesn't know how to yet. So the point I'd make here is, this industry is going from being one or two at a time to being major league in terms of what it can do. So that's a way to think about additive externally. And then the way to think about it internally is, we've got a funnel of $3.5 billion of cost savings. We've got dedicated tiger teams and material experts; 2,000 engineers engaged.

We've consolidated all the work around the company, 13 materials in development. If you look at the right-hand side, this is just a handful of parts we're working on. I draw your attention to transportation heat exchangers, Healthcare CT Collimators. These are both sole-sourced parts forever. And we're now kind of demonstrating the ability to print these parts as ways to take out substantial costs inside the company. So this is going to be a big driver of both services productivity and installed base productivity. A thousand application ideas, hundreds of prototypes made, $500 million of new savings. So that's kind of the additive story, pretty exciting as well.

Lastly, just kind of talk a little bit about, I showed you this chart at the Outlook Meeting. AEIP is very much aligned with kind of our ongoing commitment of 3% to 5% organic growth, 100 basis points plus good free cash flow conversion. Everybody, every leader in the company's incentives are aligned with that. The long-term incentive plan is really aligned to the bridge, right? So both these things align to – of what we've talked about in the past vis-à-vis the company. And your leadership team is highly engaged and aligned with how investors look at the company. So that's kind of always key.

And then lastly, I'd just say, here's some – just some ways to think about 2017 and 2018 going forward. I think from a – going back to 2015, we had a walk that started at $1.30, went up to $2. It was underwritten at the moment that we saw kind of where the markets were and things like that. We had a little bit of buffer on the other side. And what's happened since then has been a much tougher resource market, the 606 standard, and we've also offset that with incremental cost outs and good capital allocation decisions. So that's 2015 and 2018.

This year, I think the algorithm for the company is the way we have talked about the algorithm for the company, 3% to 5% organic growth, 100 basis points-plus of margin enhancement and high-quality earnings from a tax and a from a cash flow standpoint. Execution on Alstom and Baker Hughes on track, execution of all the capital allocation on track. So where we started in 2015, go through 2016, we're on 2017.

And then the way I – from an investor standpoint, the way I'd look at in 2018 is, we are going to execute on an algorithm of 3% to 5% organic growth, the 100 basis points plus of margin enhancement and 80% to 90% of free cash flow conversion. We are going to execute on that, right? We're going to – right now, we forecast the 606 to be $0.05. We'll get smarter about that as time goes on. We're going to execute on capital allocation, acquisition integration. We have an incremental, let's say, $8 billion to $12 billion of capital to invest over this time period. And what I would say is, we have to underwrite 2018 assuming that the resource markets don't get better, right?

So I think you've got to work a number of scenarios, but I don't think we'd do you any favors unless we underwrite 2018 assuming resource markets are stable. If you do that as your underwriting case, $2 will be at the high end of the range. And our job now is to take more cost out. And so what I'd talk to you about is reducing the digital spend as being, I would say, a buffer as markets get – potentially get worse, and that's how we think about the company going forward. But what I would say is 3% to 5% organic growth, 100-plus basis points of margin enhancement, good free cash flow conversion, this is a strong, very strong company.

So let me end there, and I'm happy to take questions.

Q&A

<A – Jeffrey R. Immelt>: I'm going to start with Jeff, Jeff Sprague, and then we'll go to Scott.

<Q – Julian Mitchell>: Okay.

<Q – Jeffrey Sprague>: Great. Thank you, Jeff. As I thought about this, the whole cash flow debate a little bit more, I look at 2016 and your free cash flow to sales was 7%. And your guide for 2017 kind of implies 8%. That's actually where Siemens, ABB, UTX are. They kind of average to 8% so the issue actually, I think you're correct, is not that the cash flow is poor. I think it's actually more of the earnings construct. I mean, that 8% is roughly $0.05 of free cash flow. So I wonder if you've actually just considered maybe obviously report GAAP on your financial statements, but really making that the framework of how you talk about the earnings, how you guide earnings and really kind of remove a lot of this arithmetic to try to figure out what the conversion ratio is.

<A – Jeffrey R. Immelt>: Jeff, really, I mean, I think we're always open to new ideas, right? I'd just come back to – let's start with this one. 3% to 5% organic growth, 100-plus basis points of margin improvement, 80% to 90% free cash flow conversion on the basis we looked at and just execute on that and grow that. And we can have this debate as time goes on. You'll do great analysis as you always do and put that. But I – what I would say is that, look, we think both the earnings algorithm and the cash algorithm are both important. And we're focused on both of them, 80% to 90% for a company with our business model, that's probably – you're going to have years where you get more progress. That's going to go up. But inside that Healthcare is 100%-plus. And Aviation, when it's investing is different. And that's the way to think about the company. Scott?

<Q – Scott Davis>: Sure. Jeff, it's – so first, just to confirm. Are you reiterating that $2 is a makeable number because you're going to cut cost to make up for the resource?

<A – Jeffrey R. Immelt>: It's going to be in the range, Scott. So what I would say is, look, we are looking forward and assuming that markets don't get better. We've got other pots of cost to take out, which we're going to go do. But – and I would say, we don't – if we want to take it off the page, we would have taken it off the page. We didn't want to. But I want to get back to 3% to 5% organic growth, 100 basis points-plus of margin enhancement, good free cash flow conversion.

<Q – Scott Davis>: Understand. I just want to clarify that. One of the things that when we look back, I mean, we've had arguably two or three tough quarters in a row, maybe even – you could say five tough quarters in a row really since you were here at EPG last. Is the elephant in the room that just Alstom isn't performing as – in line with the deal model that it's eating more cash than you anticipated? And that's a big explanation to why the cash flows come in short?

<A – Jeffrey R. Immelt>: Again, Scott, I think Alstom is going to hit its earnings plan. I think strategically, it's important. It's a small piece of how we think about cash. But again, I think last year, cash was, I think, $11.6 billion. We were shooting for $12 billion, mainly explained by earnings. And I think this year, we're still focused on $12 billion to $14 billion. So really, Alstom really not so much around LTSAs, but more around just the – how do you get in a company that had two inventory turns, projects and things like that? How do you get that into the tent and generating the kind of cash we would expect?

That takes some time. And – but then we kind of factored that into the plan. Right here, Andrew.

<Q – Andrew Kaplowitz>: Jeff, I just want to clarify like at the Power Day, you talked about 15% more improvement in cash conversion. Can you still do that? And then is there anything more you can do on the cash flow side in terms of you talked about working capital contribution, but as long as your LTSAs are growing, you kind of have a cash mismatch there. So how do you sort of reconcile that? I think it's a good problem, but a lot of investors don't think it's a good problem. So…

<A – Jeffrey R. Immelt>: Yes, look, I mean, I still think for a business like Power, they should be doing better than they are right now in cash conversion, right? So when you think about for the company, I still look at the 80% to 90%, whereas Power should be doing better and will do better. Look, I think on working capital, we've got another $6 billion or $7 billion to get out of working capital. And we're all over that. We generated $3 billion last year. We ought to generate $3 billion this year. We'll get positive next year. I'm not sure we can keep on the $3 billion train. And we've gone through a time period of lots of new product launches and upgrades. And actually, quite honestly, kind of upgrading the GEnx in-flight and things like that, that have all impacted our LTSAs, and those are going to slow going forward.

But I would stand back just a little bit, guys. And look, I understand the questions. Having control of your installed base, that's the game. If you're in my shoes, that's the game, right? High margin, great product feedback loops, high visibility, customer win-win. This is the ball game. And when you think about it economically, in excess of 30% returns, right? Even though the cash flow comes in over time. And really, the ongoing disbursements have been – haven't been exactly equal to the growth that had been in place. So I think we can always – we can do a better job of managing cash, don't get me wrong. But I don't want you to really miss the forest for the trees in terms of how the LTSA, the value of having – this is a huge moat around the company. Steve?

<Q – Unknown Participant>: Thanks Jeff. Hate to put you on the spot, but like to get any update on succession planning, potential timing. I know you just can't bear the thought of not coming down on Sarasota.

<A – Jeffrey R. Immelt>: Coming to this hotel would be the miss of my lifetime really. And I don't know. Maybe sunbathing with Jeff and stuff like that is just the – I just dream about that. Look, I'd say, look, this is a process that the company's been working on for a long time. Board leads it. I think pretty disciplined process. Look, I think when you think about GE, A.T. Kearney kind of voted us number one and best company to develop leaders last year. We've got a very deep bench. We've got GE alumni that are running businesses all over the place. So we've got a deep bench. We've got a disciplined process. And I think we've got it well on track. That's all I'd say about it, but yes. Good, Bob?

<Q – Robert P. McCarthy>: I think about how to ask this question. In terms of the portfolio, obviously, with Baker Hughes, pretty interesting deal from the standpoint of how you structured it. And it gives you some flexibility, right, because you can consolidate it or you could punt it, depending. Do you think this could be an interesting testing ground for perhaps thinking about other parts of the portfolio down the road if it's successful to pursue that kind of structure for Healthcare or the portfolio.

<A – Jeffrey R. Immelt>: Really, Rob, I don't – in other words, I don't think we – we don't think about this as being necessarily like a capital markets play. Really, it was a marriage – it was the structure for convenience. Now it does create some optionality in terms of how you think about it, and we should watch to see where that goes. What I would say to you guys is, look, I know it's about unlocking value versus creating value and all that really. But I'm really just hard-pressed to say, really, and I've come down here a long time, we've divested more than $100 billion worth of businesses, right? We did Plastics and NBC and Insurance and Capital. And did we get them all right? Maybe not, but we got more right than wrong.

And so what I would say, Rob, is look, we're always going to be fast on our feet and try to create shareholder value. And if we're not good at a business we're going to sell it. And to your point, Baker Hughes gives us a perspective that we'd be crazy not to see, do investors like it more? Does it give you a different perspective on everything else? And we're open to that, always have been, always will be.

<Q>: $8 billion to $12 billion, I mean, any kind of rank order of where that could be allocated in terms of how you're thinking about it?

<A – Jeffrey R. Immelt>: Guys, really, I always say this and then get myself in trouble. We're managing enough acquisitions right now, right? So if I had to push a button today, would go to buyback. First because we don't see a ton of great returning stuff, but the second thing is because we've just got a lot on our plate. We've got a lot to execute. We've got a lot on our plate.

<A – Jeffrey R. Immelt>: Dare I, really? You've grown bread and all that stuff, I don't know.

<Q>: Okay. I could just drop the mic and walk out if you really want me to.

<A – Jeffrey R. Immelt>: Okay. Go for it.

<Q>: I thought that was kind of funny, but, guess not. So I think through all the hysteria of succession and sum of the parts and deals left and right, when you look at this presentation, you talk about 80% to 90% free cash flow conversion, look, we're a longer cycle company with more global footprint. You go into Saudi Arabia. You do all these great deals, but you have to like put down brick-and-mortar, all this kind of stuff.

Additionally, on the structural cost data, it looks like you have basically like $1.3 billion of just basic inflation as well as digital spend. And you can argue digital spend is optional, but I mean, isn't that kind of to protect the moat of the installed base? How do you look…

<A – Jeffrey R. Immelt>: I think it's helped immensely Steve, but when you look at how much we've spent on digital compared to anybody else, if you took everybody else you've had here this week and multiply it by two, you still wouldn't be in the moat we've created in digital.

<Q>: Sure. So the point is, is this kind of just saying, look, guys, it is what it is. These are our businesses. There's still some things we can do, but structurally, these are our end markets. They're tough to compete in and…

<A – Jeffrey R. Immelt>: They're good end markets, 3% to 5% organic – really, 3% to 5% organic. And really, look at the last five years: 13% EPS growth, 4% organic growth, 340 basis points, $120 billion return to investors, right? Crap, it's pretty good, really. And so I'm saying 3% to 5%, 100 plus of margin enhancement and 80% to 90% of free cash flow conversion. So that's a pretty good record.

<Q>: So it is what it is. The last few years have been what they are.

<A – Jeffrey R. Immelt>: We've doubled industrial EPS almost in five years. Let's go, right? Look, really, guys, look, I've been coming here a long time. There have been three moments when I've kind of felt, I'd say, 2001, we felt a little bit frothy compared to where the company was, right? 2009, we felt a little bit underloved. Today, when I think about where the stock is compared to what the company is, it's a mismatch. That's happened three times in 16 years, right?

So look, I'm in the FOX News mode. We Report. You Decide. Okay? This is a – so I'm not here – the last thing on Earth you want is a CEO that's here bitching about their stock price. But let me tell you, I've done this for a long time. There's only two other times when I kind of felt. So look, let's end it here.

<Q>: Sure. And then just the – on the spares front. Is there any increased competition on your spares base in the U.S. that you're seeing given the challenge of the IPPs? Or is it not really, no competition? And Power?

<A – Jeffrey R. Immelt>: The flip side of that question is LTSA. Really, the flip side – any question you want to ask on the installed base vulnerability, the absolute wall of these long-term service agreements is the answer, right? So do you want to pick or do you want me?

<Q>: It's up to you.

<A – Jeffrey R. Immelt>: Oh, shit, I don't know. Okay. I hear Martin. I hear you this week have been asking FASB questions, right?

<Q>: No. I…

<A – Jeffrey R. Immelt>: So I guess, I've got bored of your stories. Okay.

<Q>: I decided to leave that to Stephen.

<A – Jeffrey R. Immelt>: Okay.

<Q>: But what I would like to do is to go to the equipment margin chart.

<A – Jeffrey R. Immelt>: Yes.

<Q>: First, I congratulate you for putting it up because it does not look pretty.

<A – Jeffrey R. Immelt>: Yes, and I agree.

<Q>: But it does generate a couple of questions about how that is going to move over time. First, in the near term, you have the LEAP engine ramp, which is going to be a headwind. You have businesses coming out that while they're relatively low margin overall like water, are accretive to the equipment margins. So the question is, in the near term, is that in danger of going negative so that…

<A – Jeffrey R. Immelt>: It's a fair question really. I would say, I would agree with your statement to say, I think this has been, in some ways, when you think about how do you get back to 18%, 19%, 20% margins, you've got to go through product. So I would say companies in oil and gas have been tough, right? And then I think you're just eating up with H, the 2-megawatt wind and LEAP, you're eating up a lot of headwind. Now I would see 2017 maybe being flattish. And then I think if you look at 2018, 2019 beyond, this ought to grow every year.

<Q>: Okay. And then – which leads to the long-term question. How long do you think it gets – it takes to get to 5% margin in your mind?

<A – Jeffrey R. Immelt>: I don't really – if I gave you a bullet point, it would be incorrect. What I would say is, the way we're going to measure the teams is to hopefully get 50, 100 basis points a year on the equipment margin piece itself. And the last thing I would say, guys, is really the – look, if you – let's take wind, right? So we acquired LM on wind. Their margins were twice ours. So we're taking all of the enterprise risk. They're taking none. And they have 15% margins and we have 5%. So this – every situation like that, Martin, is going to get corrected in this company either through additive, by acquiring our supply chain or something else. So there's a ton of value right there.

<Q>: Right. And then there's the strategic question, which is, clearly, you want to build moats on your service to get – to place product to build the service business because of the moats – by capturing the customer on the profitability of the service. How do you view taking low or even negative margin…

<A – Jeffrey R. Immelt>: If we don't like the bridge?

<Q>: Pricing on equipment to capture that service, which is incredibly lucrative? I congratulate you.

<A – Jeffrey R. Immelt>: Rather than being hypothetical, I would just say, there's no need to do it today. You think about this, guys, look, either by luck or by choice or by something, we have a better narrow-body product today than anybody else, right? We could have as much of that business probably as we wanted right now, but there's no reason to do that at lousy margins, right guys? None. H is on its way to be 64%, 65% efficient. There's no reason to give all that value up.

And then I would say, Martin, the 2-megawatt – on the 2-megawatt, really, I think anybody that's in the wind business right now has to know how to triangulate off of what's the price of solar on the grid and things like that. So when we think about inside the company, you got to get your cost structure down to $0.03 wind, $0.03 or $0.04 wind and we're all about that. So my point is, that's always been a great question for GE, the point you just made. I don't think we need to make that choice right now. I really don't. Should we…

<Q – Julian Mitchell>: One more, if you want?

<A – Jeffrey R. Immelt>: Yes, great. I'm going to go – I want to go to Nick, yes. Nick's hair is as gray as mine, so that gives me great comfort.

<Q>: Jeff, I just wanted to think a little bit back about the evolution of GE Digital.

<A – Jeffrey R. Immelt>: Yes.

<Q>: That was really supposed to be a critical accelerator. And probably internally, that's been a big contributor, but it's also become a notable increase user of cash. The investment last year was larger than the first five years. And this year is up again, 20% or something. When do you see this really breaking in terms of the bow wave to ultimately be a big external driver with your external customers?

<A – Jeffrey R. Immelt>: So here, it's a great question, I think, Nick. So what I would say is, the way to think about it in the short term is, it ought to be making everything inside GE more valuable. It ought to help our service growth. It ought to help our productivity growth. Like I said earlier, I think our headwinds have crested and start going down in 2018. But I would say by 2020, this ought to be a steady, strong income

producer inside the company. And that fares very well compared to the S curves of lots of other software platforms that have gone on before us.

I wouldn’t lose sight of it. Nobody in this room is going to – look, you’re not going to pay much attention to this. And I don’t blame you, really. But somebody’s going to create – a service platform is much more valuable than a CRM platform, period. Somebody’s going to do that, and we’re as well positioned. So essentially, you get that for free, right? You get that for free.

<<Jeffrey R. Immelt, Chairman & Chief Executive Officer>>

Okay. Great. Good being with you and look forward to joining you.