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EDITED TRANSCRIPT

GE - General Electric Co at Electrical Products Group Conference

EVENT DATE/TIME: MAY 23, 2018 / 3:30PM GMT

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PRESENTATION

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

Okay. So apologies, we're running a minute or so late. It's my pleasure to have the last speaker up, Mr. John Flannery, Chairman and CEO of GE. Last year's presentation was obviously a little bit fraught. This one should be less dramatic, but more informative, we hope.

John L. Flannery - *General Electric Company - Chairman & CEO*

Great. Thanks, Julian. It's great to be here at EPG after hearing so much about it over the years. I really wanted to take today and cover 3 basic topics with all of you. One is, I'd say, for -- really for all the swirl that's been around the company in the last year that we do have a set of very strong assets operating in good end markets with a strong base to work with here. The second thing we're going to walk through really is a lot of emphasis that we have on how we de-risk and delever the company. So that's fundamentally around our cash generation, our asset dispositions and the steps we're taking to manage the GE Power situation and the GE Capital situation. And then the third thing I want to spend some time on and quite important is a different way to run the company. We've had a long-standing sort of approach. And I'm going to share with you a different angle on that borne out of a lot of my experiences in the company. I think it's going to be a quite interesting change in the company's flightpath here.

Let me start first with just the strength in the company, just quickly in these 3 business segments. So Aviation business continues to be a leader in its business, 2 out of every 3 aircraft that take off are GE engines. We've got a 65,000 engine installed base. We've got a $200 billion revenue backlog. Military looks good right now. The LEAP is the fastest-selling narrow-body engine. We're ramping up the launch of that, holding margins through the launch of that. And good opportunities in things like additive and digital and turboprop. So very strong business there.

Healthcare, the business I know well from my prior job, very strong with a couple of really healthy platforms. They're pursuing jointly a strategy really targeted around outcome-based, value-based, precision health care. The imaging and mobile diagnostics business is a clear leader, got over a million machine installed base. There's 16,000 scans a minute coming off of that installed base, really global business, global footprint and especially strong in emerging markets, which is a high-growth space in the Healthcare business. And the Life Science business continues to be an attractive industry, good growth. And our business, in particular, good growth, good margin, cash conversion in a really robust, durable business model. And related to that business, a lot of things that we see for investment opportunity in cell therapy. So we like that business.

And on the Baker Hughes side, I'd say, we like the way that's unfolding. The team's executing well, focused on growing cash, focused on growing margin, getting the synergies. The customers have reacted well to the merger and the integrated offering. And there's a little bit of tailwind right now in terms of obviously the market. But even without that, we see good, strong, robust earnings growth here over the next couple of years.

We're not going to go into a lot of discussion about the 2018 framework. I'd just say basically the outlook is unchanged at $1 to $1.07. As we've said before, there's pressure in the Power business. I'll walk through that. But we expect to be in the lower end of that range, on track for cash flow generation of $6 billion to $7 billion. We've spent a ton of time on cost. We've got a $2 billion cost target. We expect to be ahead of plan on that and continuing to invest in other areas of the company, additive and digital. And we'll talk naturally about cash and the balance sheet. So there's good things to work with here as we go forward.

I really want to spend the rest of the time today talking about 2 basic things: one is, how we're going to de-risk the company; and two is, how we're going to run the company differently. So when you think de-risking, we're going to take you through Power. That's been a challenging market and a lot of good work done by the team addressing that. We're going to take you through our balance sheet, how we raise cash, how we delever, how we strengthen the balance sheet, how we de-risk the operating environment for the good assets that we have and then walk you through where we are on GE Capital. We continue to focus on reducing our asset size at GE Capital and our exposure to the insurance business. So de-risking is important. And then we'll finish with just a quick discussion around a real change in the philosophy of operating the company, how we run it day to day, the mechanisms that we're going to use and then really how we optimize the portfolio and the value inside the company. And I think the Wabtec announcement from Monday gives you a window on how we're thinking on those things.

I'll start with Power first. I'll just say end market continues to be very challenging for new gas turbines. So we built our 2018 plan around a 30- to 34-gigawatt market size. It continues to be under pressure from energy efficiency, penetration of renewables. The storage things that are happening here will only accelerate those trends, geopolitical things, financing. I don't have to tick all this off for you. The pricing environment is tough with everybody having excess capacity. So we've gone through with the teams. This market size has been kind of a moving target obviously and built up at a very granular level going around the world. Where do we see need for power? Where do we see the likely development of projects? What's the flightpath and the time frame for those projects? And so we see, I'd say, on a good granular level what's going on in the market. And right now we're looking at something that's likely to be 30, maybe a bit below 30. We see a pipeline that's higher than 30, but I think a lot of these won't close in the end in 2018. So we're planning on this market, continuing to be like this for 2019 and 2020. So a soft end market.

The change for our -- basically no change in the financial outlook. We've got operating profit at $1.9 billion flat. So Russell and the team are taking a lot of steps to address the market environment that we've had, and that's really what I want to cover on the right-hand side. For us, we have to control what we can control, focus on our operating execution and move the margins back. We had a tough obviously 2017 here, margins 5-6%. And we've got to control our operation and execution and get the margins up. So all the roads on that lead to extensive cost out. We hit this every day, every conversation in the Power business. That's really about reducing our manufacturing footprint, reducing our base cost. I think Russell and team have moved very quickly on this. We took $800 million of operating cost out in 2017. We've got a target of $1 billion incremental built into the plan for '18. They took out $350 million in the first quarter. So confident we're going to be able to exceed that target. There's good visibility around headcount management and headcount down 12,000. So we think these -- and there's a series of other cost actions we keep looking at inside that business, but these steps can raise margin rates 300 to 500 basis points over time.

The second thing is the installed base is a critical way to think about this business. It's still a valuable asset. We still generate 1/3 of the world's electricity. And we think there's ways to optimize this business. I'll cover it more in the next slide, but improving our transactional service visibility, continue to manage our cost, continue to manage some of the quality issues that we've had in this business. So we think we can get 100 or 200 basis points of margin lift out of that part of the business.

And then lastly, if you look at 2017, we had about $300 million of cost in the Gas Power Systems business and to some extent in the grid business, which were really largely around execution, liquidated damages, project delivery, things like that. We've got a long way to go to improve here, but we've got changes in the management team. We've got a new leader in the Gas Power Systems business, new leader in our supply chain business. I'm seeing progress on both of those fronts. These are deep GE veterans applying a lot of Lean, a lot of Six Sigma to get the operations of the supply chain and delivery optimized. So we've already seen about a 20% reduction in the LEAP cycle time. We're seeing things that can take another 50% out of that. So these steps inside the Gas Power Systems business, again, we think can generate about 100 to 200 basis points. So I'd say the net look at that market for us is soft new unit volume, control what we can control.

If you look at the service business. So again, at the end of the day, right now, the economics of the business and the value of the business are really distilled and concentrated in our service business. You should think of this as really 2 different books of business, if you will. We've got about 1,500 turbines under long-term service agreements. That's about $5.3 billion of revenue. And then we've got about almost 4x as much, about 5,500 turbines on what we call transactional service arrangement. We have to hustle for that business. That generates about $5.5 billion of revenue.

I think we've shared this with you before. But coming back, long-term service agreements are still a core part of our business model here, much like they are in Aviation. So we win on technology advancement and we service the equipment over the life of the contract. And our customers have liked these arrangements. They know we've got a 20-year-plus track record that we can improve the output and performance of those assets when we service them. And we're able to take some of the risk off the table for them as well. We're able to predict parts usage and things like that. So customers get a better performing asset. They get a controlled expense around their maintenance. And we're able to use our scale and knowledge and experience and generate good cash, good returns over time. So this is a core, important part of the business right now.

This book basically is performing as we would expect. So the attachment rates are good on the new technologies. It's mostly concentrated on newer technologies, 90%-plus on the H, 80%-plus on the F. Renewal and retention has been good. Utilization has been good. We're renewing about 98% of these contracts. We're renewing them and able to hold the margins there. So that business is performing well. I think at the end of the day, we really look at the cash flow off of that business and the cash stream off of that business. So we collect about $4.5 billion a year off of this book today. As you roll out our forecast and the backlog, that's about $40 billion of lifetime cash collection that we see coming out of this contract base. And when you factor in our costs and the returns into that, this is really an extremely valuable asset for the company. So we talk about this a lot in terms of contract asset value quarter-to-quarter or under the old method, the cum catch thing. We fundamentally think about this as a valuable long-term receivable.

If you look on the -- so that performing as expected. I'd say, the real challenges we've had are on the right-hand side of the page here, fixing the transactional business. So let's just start first by saying, this is quite a back-to-basics situation here. This is about knowing where our installed base is, where there are going to be outages in the installed base and making sure that we've got commercial coverage and commercial proposals out in front of the team. So it obviously at one level doesn't sound that complicated. But the reality is, when we were going through this last November, we had visibility to about 28% of our installed base. That number is up to about 88% right now.

We see as a result of combing through that about 1,100 outages that we expect in 2018. Again, back to November, we had commercial proposals in front of about 32% of those. And now we've got that number up to about 75% and rising. So this is a big book of business. That delta alone is about $800 million of margin business that we're competing for that frankly, we had lost visibility on. So we've got a new leader. Scott Strazik doing a fantastic job grinding out our execution there. A couple of other things we've done in this transactional business. We've made major changes to the sales incentive compensation. So we've effectively tripled the sales incentive compensation for people who go out and get new transactional business. So this is really, at the end of the day, feet on the street, visibility, commercial intensity and the right motivations for people to drive this business.

We had pricing issues here. There's been a wide range of discipline and control on pricing. The team has centralized that in the right part of the organization. We're seeing the pricing starting to firm up here. And then what you'll hear in every nook and cranny of the company, but especially here, back-to-basics operating execution, the right technical expertise, the right planning for the outages, the right execution of that work. So I'd say overall, as we look at this business, the new units are going to be tough. We're going to continue to focus what we can control. We're going to continue to drive costs down rapidly. And on the service side, we see maybe some green shoots. So this is not going to be a quick fix, but there's, at the end of the day, long-lived assets here with intrinsic economic value. We're going to make the most of what we have there.

I want to talk now just about financial policy and cash and delevering. So this is really the second element of de-risking the business. I'd start first. We've talked with you before about it, but I'd start with mindset. We, in every conversation in the company today, at every level, we're talking cash. It's really the epicenter of the organization psyche right now is a cash discussion. Where are we on cash? Where are we on inventory? Where are we on commercial terms? Where are we on collections? Do we really need to do this CapEx? So the mindset shift in the organization has been huge. We've reinforced that with the compensation system. So right now for 2018, half of the total incentive compensation of the business is driven purely on cash flow generation. So a big shift in mindset.

We see a path forward to increasing our cash levels, decreasing our leverage. So we're going to finish the year with about $15 billion of industrial cash. That will be up from $11.8 billion at the beginning of the year. We're, again, as I said earlier, on track for $6 billion to $7 billion of free cash flow. That's going to be a function of some working capital liquidation, especially inventory, but also earnings improvement in the businesses. I think it's important to note that our free cash flow metric and everything is after the businesses have already made the organic operating investments that they want to make, whether that's research and development, new product launch, sales force, et cetera. So there's a lot of capital organically going into the businesses before you get to the free cash flow calculation.

We've made continuing progress on dispositions. So we talked last year in November about $20 billion of dispositions over a 1- to 2-year period. With the announcement of the Transportation deal, we're at about $15 billion or so of that with some other transactions in flight. So I think visibility there good. And we expect $5 billion to $10 billion of cash proceeds out of that disposition pool. Where we are in that range in 2018 will be a little bit of a function of how the Transportation deal closes. So right now it looks like an early '19 close. But good visibility on the disposition pipeline and we'll take those proceeds and use them to delever the company.

And then lastly, just as a general financial policy and orientation and what Jamie and I spent a lot of time thinking about as we look at the businesses every day is, how do we take the water level down? Increase the cash, lower the use of short-term paper, reduce CP and things like that. We've got significant unused credit lines still. So constantly just trying to take the financial leverage and liquidity position to a better place. And we'll make good progress on that in 2018. And we'll continue to move forward on that 2019 and 2020. And the last thing I'd just say, as we think about doing that, we're really balancing obviously the cash flow generation and how we're managing the dispositions with our creditor base, but also ultimately focused on driving the shareholder value over time.

And I think if you look at the Wabtec transaction, we'll go through it a bit, you see elements of all this, cash for deleveraging, good upside for shareholders. So we're spending immense amount of time on this. And we see our deleveraging path down to 2.5x net debt-to-EBITDA.

On GE Capital, we get obviously a lot of questions about where we're headed with that, that I'd say a couple of big thoughts. The first is, the focus here is to shrink GE Capital and manage down our insurance exposures. So that's the sort of driving force as we look at the business and think through what actions make sense. The second thing I'd say is, there's strong liquidity in GE Capital. So we've got about $22 billion there at the end of the first quarter. We see that at about $10 billion at the end of the year and $5 billion-plus 2020 and beyond. So as we look at oncoming liability maturation, making insurance payments and things like that, we have the liquidity inside the business to manage that.

We're going to be shrinking the assets. So we've talked about $15 billion of asset reductions. That's mostly going to come through a sell-down of our energy assets and our industrial assets. GECAS remains. It's performing well. We expect to have about half of the $15 billion announced or closed this year. That process is going well. Again, contributing to insurance, we made our first installment payment, $3.5 billion in the first quarter. We've got $11 billion to go. We took a reserve for $1.5 billion for WMC in the first quarter. There's ongoing settlement discussions there. And I'd just say, in general, as we look at this, continue to shrink, continue to manage our insurance business. We're facing into the challenges there.

And one last thing I'd just talk on insurance. We have spent a lot of time on this. The first protocol is managing that liability as aggressively as we can to reduce the raw liability. So there's a lot of operational steps around whether it's claims or the investment portfolio or negotiating directly with primary insurers, those types of things. We hired outside management into the company. So Bob Deutsch joined the company with a lot of experience here. So we're aggressively managing the day-to-day nature and amount of that liability.

So that's the de-risking picture, I'd say, Power, balance sheet strength, deal with GE Capital. And so as I think about running the company differently and maybe marrying these 2 thoughts, I kind of step back and say, we know we have premium assets, we're taking steps to de-risk the environment that they're operating in, and the last important part of that thought is, how do we make sure we're running these businesses in a way that maximizes their potential performance and value for investors over time?

And I'd start by saying, we've run the company broadly in the same manner for a number of decades. And I grew up in the company in that environment. So a multi-business unit company, heavily concentrated around the center in terms of decision-making and resources. And I think that's a model that served us well for a long period of time. But I'd say as I've worked in a range of assignments over the last 10 years really, I started to look at the model and have thoughts that perhaps a different model would serve us better. So if you look, I look back on my time in Japan, my time in India, my time in the BD business, the time running the Healthcare business. And I really start -- so this is really something that has accumulated over time in observation and experience for me, and it's not really a reaction to what happened in the last 12 months. And I fundamentally came to believe that a better organizational construct would serve the company better and specifically that we fundamentally turn things inside out.

And that we move from a headquarter-centric business, a decision resourced around headquarter-centric business and move to something where the businesses are the center of gravity.

The basic principles that I've had as I thought about that and lived through some of those experiences, there's really 4 basic objectives and principles that we're trying to obtain and amplify as we think about how is the company running day to day.

The first is, do the businesses have the flexibility and the resources and the capability to pursue all of their strategic opportunities, organic opportunities, inorganic opportunities, investment opportunities? And I'd say, in the current construct, that's not always been the case. Many times it's the case, not always been the case.

The second principle really is that we have a deep, motivating, rewarding link between the performance of business teams, great businesses turning in great results, the connection of that with the outcome in their compensation. And that's obviously partly in their cash compensation and partly in their equity compensation. And we've had some pretty major divergences in that principle over the last 18 months.

The third thing I'd say is just in the world the way it is today, the speed that it moves at is we can't have an organizational model that adds complexity, reduces speed, reduces accountability, increases cost. And I think when you look at large, heavily centralized organization models, they tend to check all of those boxes and check them in a bad way.

And then the last thing is around our horizontal services or the GE Store or whatever term you want to use for that. They have provided immense value in many cases over the years to the company. And they still do today. And I was just at our GRC Center on Monday and had an amazing review of what was going on in the company. But I want them to be subject to an internal market test with the businesses as the buyers, if you will. If they like the output that they're getting from a GRC or a GGO and the cost related to that, there's going to continue to be a market for those services. And if they don't, we can't maintain them. I want the businesses to use these services by their election and not by mandate. And I think that's going to unleash a lot of positive outcomes.

It's going to be a journey. So as we move into this new era with the company, and there's certain things we can do immediately, and we will. There's certain things that are going to take time. We've got a lot of interaction and interwoven activities here. But I'd say as a principle, we're moving to a much smaller corporate. It's going to be focused on just governance of the company, capital allocation, general strategy of the company, talent, but much smaller and move towards a businesses center of gravity. I'm going to spend a lot of time working with the teams on continuous improvement systems. We've seen this time and time again in other companies. That basic intensity around Six Sigma, around Lean, around how you interact with businesses, around how you narrow your metrics and things. That we've got teams working on that right now.

And then we want to have a set of behaviors in the way that we work that continue to just move the company forward. So things around competitiveness, candid discussion, collaboration, with just a good, healthy working culture. And at the end of the day, my objective in all of this, I want the businesses positioned so they're facing externally. They're facing the market. They're facing competition. That's where they spend their time and that they're not facing internally. And I think this is going to be something I'm very, very excited about what this is going to do. I'm sure it's going to unleash better operating performance over time. I think it's going to be less expensive. I think it's going to be better for customers. I think it's going to be better for employees. And when we're doing those things, we know we get a better outcome for investors.

So I'd say thinking about this in summary, big culture change, big shift, some people, a lot of people would look at this say, is this a cost out? Is this a code or something for just more cost out, more reduction in corporate cost? There will be savings from this, but I think the key takeaway for you is a major shift in sort of culture and business organization philosophy around the company, and I'm quite excited by what we can do with that.

Let me just spend a minute on the Wabtec transaction before we wrap up and take your questions because I think a lot of the things that we have just spoken about are synthesized in the Wabtec transaction. So I'd start first with -- this GE Transportation business is one of the oldest businesses of GE. It's an iconic business. It's a 100-year-old business. It's always been a good business, good technology, a big installed base for services. It's been globalizing more. There's been good cash performance over time, margin performance, good management, been a good business. Cyclical, obviously, as part of the industry, but fundamentally a good business for a long time.

The reality is, inside the company, it was always second or third or fourth or fifth to get to the table for resources. And it wasn't because we didn't like the business, it just was smaller and a little bit off the core radar. So we see an opportunity now for our shareholders to participate and benefit in a much healthier construct, a much stronger company. A company that's free to have its own resources to pursue its strategy in the rail business with the management team that have the right levers to pull in that business, good link between compensation and outcome for the team and a good chance for our shareholders to participate in this.

So we like the transaction. Let me just walk briefly through it. The essence of the transaction is a merger of GE Transportation into Wabtec public company. We're going to take a $2.9 billion dividend on Day 1. And our share -- GE will own 50.1% of the shares after effect of the dividend and the merger. We're going to distribute in some fashion, to be determined, 40% of the 50%, whether that's split or spin or other things we'll determine in the future. And we're retaining up to 9.9%, which we can monetize or also spin or split. So that could be another $2 billion of cash into the company if we monetize that at today's prices. So a lot of flexibility, about $5 billion potentially of cash to the company to help delever, but still have the upside in this business. And I think when we look again on the upside, we think this is a very, very strong company. So we think the Day 1 valuation reflects a certain inherent value of our company. But what we're really excited about is Day 2 and beyond and what we can create with the Wabtec management team. So Al and Ray are going to lead the company. We're very confident in that whole management team. Rafael, who runs our Transportation business, is going to be running the freight side of this company, which is about 70% of the business. But we see just a good path forward with management.

And the business logic, if you spend time on this, is quite compelling. The industrial logic to combine these companies. It's a broadly diversified company. They're a freight and transit components company. We're a locomotive company. There's big opportunities to cross-sell and leverage each other's relationships, et cetera. So we see a very healthy business logic to this.

Financially, I think it's quite interesting. So this is a company now that's going to be a big $8 billion company, 15%-plus margin. There's about $250 million of run rate synergies that we see by year 4. Obviously, we couldn't generate those on our own. There's a creative tax structure to this. We've got about $1 billion of tax asset upfront. And we just see a upside ride for everyone's shareholders, Wabtec and GE in a cyclical industry that is going to go through, we think, a major upturn in the next couple of years and a logical business combination that creates a healthier company. So we like the form of this transaction.

The last thing I'd say is, and I think it's a window into talking about the company overall and how we're managing and how we're going about things. We've been very, very deliberate about analyzing our business, what options we have, how do we create value, how do we balance these issues around dilution in equity and maintaining upside, et cetera. And we went through very methodically. We could have sold this business for cash. There would have been a long line of people. We could have done that 6 months ago easily at a much lower price. We looked at taking the company public and spinning off on its own and what might that create. And ultimately, as we went through that, we came to the belief that this is a compelling transaction for Wabtec. It's compelling for us. This is the right thing to do. So I think the hallmarks are, we are being deliberate, methodical. When we see something compelling to do, we're going to do it. And we're not doing things just to create activity.

So I'll wrap up where we started and then go to questions. I'd say net takeaway as I'm standing here at EPG, I come back for all the swirl again of the last year. We have some high-quality assets in the bigger businesses. And as you see in Transportation, in the smaller businesses as well. We're very committed to reducing the risk parameters of the company, the balance sheet, deal with Power, deal with GE Capital.

We're running the thing in a very, very different way going forward, and that's going to create a lot of accountability, modularity to see how the businesses are doing. Everybody is going to be on the griddle to perform. And we're being deliberate about the optionality when we see something that makes sense. So it's been about almost a year. Next month will be a year since I was first announced in this role. I'd be the first one to say, it was a challenging first year. But I'd also say, as I go forward and look forward, I'm extremely excited about the assets we have and the team that we have. And that if we run it well and de-risk it, that we can unlock a lot of value as we go forward here.

So I'll pause there and take your questions, but...

QUESTIONS AND ANSWERS

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

John, just over here, first one from the audience just around the Power business. You talked before about a low to mid-teens operating margin aspiration, I think. Looks like that's closer to 10% today. Firstly, I guess, is that a real reduction or is just a timing sort of clarification? And then secondly, within that 10%-plus number, what's the split between the grid margin and then the power generation type margin?

John L. Flannery - *General Electric Company - Chairman & CEO*

So I would say it's a timing. We still aspire to those kind of margin rates. I would say the new business unit environment has eroded to some extent. You're seeing that with all the other competitors. So I'd say that has deferred in some ways the slope of that, but we still chase that. And then I'd say on the Power side of things, most of that margin focus as we're talking here today is around the Power business. There are opportunities in the grid business. What I'd say, as we look at the grid business, Julian, the -- we've talked a lot today about power generation. The other really interesting part about what's going on in the industry and the assets that we have is the future of the industry is tilting more and more to grid systems, two-way grid systems, storage systems, software around dispatching and optimizing dispatch at price, time and power generation source. So that's really -- when we're looking into those businesses. And we have plays in all of those aspects. That's where we're looking at on the grid side of things.

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

John, so on the earnings call, you said there would be -- everything is on the table. There's something that we're going to come back with in a couple of months. So are we still on track for kind of before the end of the second quarter where there's going to be something a little more substantial than what we heard today? And if that's the case, 2018 seems like it's kind of a year of, it's stable as far as the portfolio is concerned. And then kind of '19 is when you see the impacts of all -- of whatever you're going to do. Can you stand behind the $0.48 dividend in 2019 with what you see today and what's going on in the portfolio or is that something we're going to have to kind of wait for after whatever it is you decide in the next month or so?

John L. Flannery - *General Electric Company - Chairman & CEO*

So let me just come back to a couple of principles. We're doing a ton of work inside the company, a ton of work with the board and we're being deliberate and methodical about making changes and moves. And when we have things that make sense to announce and bring to you guys, we're going to bring those. We're going to take actions where they make sense and when they make sense. So we're still on that path. With respect to the dividend, I would just come back and say a few things. We've talked before about the importance to our investors. So we know that, that's a key component of the valuation and attraction of the stock is what's going on with the dividend. We've talked about balanced capital allocation, what makes sense for the business in terms of that mix of dividend, et cetera. It's ultimately a function of the free cash flow of the company. And that's ultimately a function of our operating performance with the assets and things that we do with the portfolio.

With respect to the Wabtec and the effect of the Wabtec transaction, right now we're looking and saying, we've got to see how this plays out. We've got a lot of other things going on with the portfolio. We don't know the spin or split form of that transaction. We're not locked in fully to the Wabtec dividend policy, et cetera. We'll make a specific call about that at the time of closing. But so I'd keep coming back to the main things. It's important to our investors. It's a function of our cash flow. That's a function of our performance which would -- that's where our day-to-day focus is. It's a function of what happens with the portfolio. And as those things unfold over time, the dividend will cover that.

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

And then one more follow-up. If I look at the 3.5x net leverage, $15 billion of cash, roughly $15 billion of EBITDA. I don't know how you guys define it versus others. So the net leverage seems to me to be a little bit more in the 4.5x range or the gross leverage, excuse me, in kind of a 4.5x range. Is that the right number for that year-end, the 3.5?

John L. Flannery - *General Electric Company - Chairman & CEO*

Listen, you guys have all the math. I'll let you guys do the math. We focus and communicate around our net debt. So that's obviously gross debt. We've been building cash. So that's an important distinction, if you will. So our calculations and numbers are on net debt-to-EBITDA.

Unidentified Analyst

John, just a question, a bit of follow-up on what Steve talked about. So since November, right, I think several things have happened. Power has been, I think, a tad weaker than you signaled. You have $15 billion contribution for long-term care and also I think Moody's recently put you on watch negative. So how has your calculation, particularly now that you have the new board, how has the conversation about the margin of safety in regards to the balance sheet has changed since November and particularly in the past 3 weeks since you have the new board in place.

John L. Flannery - *General Electric Company - Chairman & CEO*

So let me take that in 2 dynamics maybe. One is just the question around board. And it is -- I'm very, very happy with the board dynamic that we have right now. It's a good mix of new and old. About half the members are new, if you add myself or Ed or Risa, about half the members 1 year or less on the board. So very good, interactive discussions with the board, and I think that's been a good outcome for us.

With respect to -- you should take from the discussions today with respect to de-risking the company, we're thinking very much about building a cushion here, running the company with higher levels of cash, reducing the reliance on short-term funding, making contributions to the pension fund. So I'd say, if you look through the actions we're taking, they're built around, we -- as I said, we know we have good assets. We want to reduce the risk environment that they're operating in. And we have good options to do that. And we're making progress in doing that. And such that we can ultimately play the game to its fullest extent over time.

So I'd say, we're -- I grew up as sort of a risk manager person in my early days. And so when Jamie and I are looking at the company, we are always looking at a multiyear scenario around cash and leverage. We're always looking at what if there's some exogenous shock to the company, what would it do? So I'd say risk management is high on the list of things that we talk about as management and that we talk about with the board.

Okay. Then we have to start to share the mic or else this side of the room will get very unhappy.

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

On the Power profits, the $1.9 billion, how fast do you think you can convert the low-hanging fruit there? And since you had talked about the $800 million in transactional that's sort of on the table and there's execution losses in there, maybe just focusing on cash generation there because obviously that's one of the big culprits, too, is that how fast can you get the conversion up over the next couple of years? If we're sitting here 2 years from now and the market is still 30 gigawatts or less, what does that business look like? Can it be 3 or 4?

John L. Flannery - *General Electric Company - Chairman & CEO*

Listen, as I said, I don't see, Andy, a short-term fix here or we're not trying to project this as a V-shaped rebound. So I think on the transactional services side of things, what I see from the team, and we meet a lot of -- frequently about this. My confidence level is they're going to execute on that. It's actually quite good and there's substantial economics there. My confidence level on the cost out is quite good. My confidence level on their focus on liquidating inventory, adjusting their commercial terms and things like that, quite high. It's going to continue to be part and parcel of those things. There's going to still be heavy restructuring and cash restructuring on the footprint side and the base cost side. So I don't see a lot of relief there. And then working through some of the monetization issues, et cetera. So it's going to take us a little bit of time, I think, to really put that in the end zone. But the team knows what it needs to do.

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

And then just a simple follow-up. I mean, you said it yourself, there was a lot of noise when you came in, maybe a couple of surprises. As you sit here today, the level of surprise, the level of noise, has it dialed down enough where you feel comfortable we're not going to be -- have big surprises now in front of us from the company?

John L. Flannery - *General Electric Company - Chairman & CEO*

Yes. I mean, I've spent a lot of time crawling through the operations of the company. I've spent a lot of time -- we've got new management in a lot of pieces of the company. And so we've spent a lot of time aggressively, where are we on this, where are we on that, what are you concerned about? And so I never want to tempt the fates on anything, but we are deep, deep, deep in the weeds of the company. And so every passing week, I feel better about that.

Clifford F. Ransom - *Ransom Research, Inc. - Founder and President*

I'd like to defer my question to my esteemed colleague across the aisle for just a moment. Go ahead, I yield 2 minutes.

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

Thanks, Cliff. You're swell.

John L. Flannery - *General Electric Company - Chairman & CEO*

Swell and esteemed doesn't seem like a fair trade, but you guys can sort that out afterward.

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

John, the market -- your stock's down about 5% since you started talking. And so the market obviously was expecting you to say something today either related to the portfolio or insurance or something else. I mean, so really kind of 2 parts to the question. I mean, one, what are the odds of getting an insurance deal done? Is that still something that's on the table and possible? And what's really holding up some of these bigger decisions? Is it the debt covenant issue? Is it just that the board hasn't decided yet on a more specific plan around some of the bigger assets?

John L. Flannery - *General Electric Company - Chairman & CEO*

So I think a couple of things on that, Scott. One is, I'd start -- I'd go back to the Wabtec example. I can't tell you how many people were like, hey, do something immediately. Why don't you sell rail? A PE firm would buy this in 2 weeks. What's taking so long? And you think about the company, it's a huge company with a long arc of history, with a long degree of accomplishment, with significant assets, with significant complications, debt and other things. And what I owe myself first, the team first, the board first, investors is, to do that in a very deliberate way and thoughtful way. So I understand, believe me, I feel that all the time where people are like, why doesn't it happen faster? Why aren't you doing things faster? I look at Wabtec and say, if I listened to those demons, I think we would have done something that you guys would have regretted.

So being deliberate and then moving when things make sense as opposed to moving just because somebody wants us to is just my style. That doesn't endear itself to everybody, but I think I'm highly confident we will make the decisions with the portfolio as and when it unfold that will be a good decision for the portfolio. I still have not changed one iota what we've said earlier. Everything is on the table. I have no nostalgia for the way things have been. If there's a better way to do things, we'll do them. And when those are ready for your consumption, we'll bring them to you. So I get that people want faster. I'm managing in a broader sense, I think, run the company well, get the cash flow up, do the portfolio things that make sense when they make sense. And if somebody wants super short-term decision along the way, that's maybe not my target audience in a certain sense.

With respect to insurance, I would just say, it's all part of the broader rubric of de-risking the company. And it really fits into this other discussion of how quickly do you move, what do you move on, how does it affect other aspects of the company. And we're managing a manageable, but complex dynamic. And we want to shrink the size of GE Capital. We want to reduce the insurance thing. We're looking at everything possible to do that. We're open to that. And if something comes together that makes good economic and risk sense for us, we'll do it. So all I can tell you right now is, it's under aggressive management. And if we saw something that made sense, we would be highly motivated to do it. And that will ultimately be a function of market factors, proposals that we get or don't get. So the intent is there. We'll have to see how it unfolds.

Clifford F. Ransom - *Ransom Research, Inc. - Founder and President*

Never get Charlton Heston, but the phrase wrench it from my cold, dead hands came to mind on the microphone. When you say CEO-led Lean and Six Sigma effort, would you elaborate on that please? I'm asking because I've never in all the time I've been transfixed by Lean seen it be sustained unless the CEO were the champion. How will you become the visible champion of that movement inside of GE?

John L. Flannery - *General Electric Company - Chairman & CEO*

So in many ways what you just said answered what we intended to convey which is, without that ownership and leadership, it will -- any initiative -- there it dies, comes in or out of favor. One of the things we're working with right now with our business units is what we're calling a manifesto. In exchange for a decentralized, distributed kind of model, we have basic expectations of what we're going to be responsible for in corporate and what businesses are responsible for. And those include -- in my head sometimes use the phrase franchise agreement -- you will operate and deploy core levels of Lean and Six Sigma. You will have automated financial metrics and systems that allow us to report on a monthly basis. We will agree on specific sets of metrics that are the same in every business. There has to be that architecture in order to run the company in a distributed way. So that's what we mean by that.

And when it's a CEO-led thing, it sticks. So again, I would say, when you look at what we're talking about, we're not reinventing the wheel. There are many, many companies that do this today, have done this today, have had their CEOs aggressively driving that kind of agenda and organization structure. So I think it's going to be quite positive in terms of getting better operating performance, better dialogue back and forth, less time wasted inside the center of the machine, lower cost, faster. I view this quite -- I know it's subtle and it's qualitative, but it's actually, I think, quite profound.

Unidentified Analyst

We don't have time.

John L. Flannery - *General Electric Company - Chairman & CEO*

Is that it? Okay. Listen, thank you.
