



GE | Alliance Bernstein 2022 38th Annual Strategic Decisions | June 1, 2022

Brendan Luecke:

Good morning. My name is Brendan Luecke, I'm the multi industrials analyst at Bernstein. Thank you so much for joining us for the Strategic Decisions Conference. This morning we're joined by Larry Culp, CEO and chairman of the board of General Electric since 2018, prior to GE he was CEO of Danaher for nearly 15 years. Larry, thank you so much for joining us again today. We very much look forward to the conversation.

Larry Culp:

Brendan, our pleasure. Thanks for the invitation. I've got a couple of slides to run through quickly, if that's all right before we get into Q&A. Q&A is obviously the more interesting, and usually the more enjoyable part of the session, but let me just give everybody a quick update on where we are today at GE. I think, if you simplify the GE story today, it simply comes down to three leadership businesses, well positioned to take advantage of what we see is a significant growth runway in aviation, healthcare and in energy. Clearly our aviation business will shape the future of flight, always has, and we're committed to doing that over the medium and long term, but here we sit really on the cusp of a post pandemic recovery, both in utilization of the existing fleet, and as our major airframers prepare to ramp from here. In precision healthcare, I think we're seeing, from a post pandemic perspective, a serious commitment, both in public and private providers the world over, to be serious about precision health, to modernize, to drive more digitization, GE healthcare couldn't be better positioned to lead in that regard.

Larry Culp:

And certainly in the wake of everything that's happened in Europe of late, the energy transition, I think, is taking on a more pragmatic approach, and here again, GEs, I think, well positioned to lead. Here we solve, not for one dimension, but for really all three dimensions of the energy transition, what we call the trilemma, sustainability, reliability and affordability, and given the range of technologies that we have in the space, well positioned as we move forward.

Larry Culp:

Here's a look at the numbers by the four segments, the three businesses, we group both power and renewables together, we call that Energy Co for now, we'll brand that a little bit later on this summer, which you can see here, over 70 billion in revenue, over 425 billion dollars of backlog, 80% of that in services, and we really like the fact that, that services footprint, not only gives us those recurring revenues, but keeps us very close to our customers. So whether it's today's challenge is, navigating all the cross currents that are out there, let alone preparing for the future in the three spaces I just outlined, these businesses are really well positioned to perform. The fact that the services space in each

of the three is really where we make our better returns, our better margins, also sets us up from here for what may come, I think on very strong footing.

Larry Culp:

Brendan, we were talking earlier about the operating environment. I suspect those of you who are going to be here for three days, you're going to hear from virtually every CEO, how difficult the operating environment is. I'm not going to belabor that for you. We could talk about supply chain challenges, inflation, COVID in China, we could talk about the policy uncertainty in and around renewables, the situation, again, in the Ukraine. I think what's really important is, what are companies doing? And for us, what are we as GE doing to operate and outperform in this environment? I'm just off the road, been out over the last three weeks with all of our businesses, conducting our quarterly operating reviews, and frankly, I feel very good sitting here this morning about what we're doing, how we're controlling the controllable to make sure that we perform in this environment.

Larry Culp:

As many of you know, we've been embarked over the last three years on a lean transformation of our company, and I'm so glad, for a host of reasons, that we've been doing that and that we have stayed on that path, the least of which is, in an environment like this, amid great uncertainty, operating in the way that we are, I think is the best formula for us to perform. I'll give you three quick examples, but from a delivery perspective, this is clearly challenge number one, fortunately for us, it is not demand, we've got plenty of demand, we'll talk about that a little bit later, both in aviation and in healthcare in particular, we have to deliver and we have to be better at that, making some progress in that regard. Price clearly in imperative for all companies out there, I think this is something that we've had to develop.

Larry Culp:

Wasn't a well exercised muscle in many aspects of our business, but we've been doing that over the last 12 months. And I think as the year plays out, we're going to see more progress in that regard and productivity cost out, again, a constant, but not necessarily something you turn on a dime and given the productivity orientation that we've taken to these businesses over the last few years, I think we're well positioned to drive this, and it's a combination not only of what we've been doing from a lean perspective, when I say lean, think Toyota production system, but also from a decentralization perspective, really running the company more along vertical lines, along P&L's, as opposed to a horizontal approach where we're looking for scale in the benefits of synergy. Let me talk about delivery for a moment. This clearly has been a job one force.

Larry Culp:

We talk a lot about healthcare, but all of our businesses are really wrestling with a host of challenges, both inside of our shops and with our suppliers, to satisfy customer demand right now. When you take a lean perspective, it really comes down to a few simple ideas, the first is daily management, how do we make sure every day counts in the factories? Secondly, pull or flow, how do we make sure we're not batching and trying to get product out the door at the end of the quarter? But again, the spirit of making every day count, organizing our flows, not only within our own operations, but with our suppliers so that we reduce waste and increase velocity, and finally we're in the process of redefining our relationship with our suppliers, and that's something that goes hand in hand with a lot of the lean agenda.

Larry Culp:

But what we're finding is, our suppliers are really buying into this lean transformation, just from a sheer coordination and signaling perspective. They get a lot less noise out of us today, that allows them to organize their own activities, give us more of reliable flow, again, something that's critical importance in this environment, and as we go through, not only this quarter, but prepare for the back half of this year and go into next year, this is going to be critical given the backlog that we have in healthcare, the tremendous opportunity that we see ahead of ourselves in aviation, is less a challenge in Energy Co, but nonetheless important. You can see on the right in healthcare, something we watch, we call this our red flags, these are the line items where if we don't replenish, we're going to be out inside of 10 days.

Larry Culp:

The curve over time is peak, it's gradually fading. You might think, "well, shouldn't it be tailing off more if you're going to step up in the second half in the way that you think?", remember in the second half, we are going to be working against easier comps, but we'll take the stability inherent in this chart for now, because it allows us to have fewer surprises and to be able to manage some of the uncertainties with greater command. If we go to price, again, an underdeveloped muscle, but an area where I think we are making progress, we would expect to see 500 million dollars of price benefit this year. When you look at how we pursue price, there's not one approach given the breadth of GE, when you look at the revenues on the left side of this slide, in effect you can cut the pie right down the middle, half equipment, half services.

Larry Culp:

With equipment, we have a lot of product where you really can't calculate price because it tends to be one off, configured in a way that really doesn't allow for high volume comparisons, but we do have plenty of flow business, think healthcare in particular, onshore wind to a degree where we can mark period to period, what we've been able to do with respect to price. On the services side, about a third of that business is under long term service agreements, the rest is really open market activity and in our long term service agreements we have built-in escalators, that allow us to, in effect, index with inflation and other measures. There's been some opportunities to tune that up and we've been doing that, but the rest of the aftermarket is, if you will, more traditional, where we've been able to take up less prices, reduced discounts, add surcharges, look at terms, all of the myriad of things that one does in an environment like this.

Larry Culp:

So, progress to be sure, a lot of it, frankly, modeled on what Scott Strazik and the team have done the last several years in gas power and remember for us, because of the complexity of the business, we don't want to get wrapped around a price number, when in fact it's ultimately about margin. So on new unit gas turbines, what the team has done is really make sure that we are hyper selective on the opportunities that we pursue, block down on cost so that we don't pursue anything without clear line aside on what our cost positions are, in our flow businesses, healthcare, grid automation in renewables, we've been going through more traditional pricing activity, and again, like we have in gas power, making sure that, with all of our service opportunities, we're pursuing price to the fullest extent possible without sacrificing good appropriately margin, appropriately priced volume in the aftermarket.

Larry Culp:

We go to cost out, roughly a 68 billion dollar cost pool. The challenge here is to make sure that we are driving material costs out while driving labor productivity and doing so in midst of these cross currents.

So a good bit of what we have done is to make sure that we are not only working closely with suppliers around should-cost activity, we've re-doubled our efforts around value added, value engineering, to make sure we're not just arm wrestling at the negotiating table, not a great posture for anybody in this environment, but really driving sustainable value creation hand in hand with the suppliers. And at the same time, driving a lot of our kaizen activity on the shop floor to make sure that we are eliminating all forms of waste, there's a host of ways in which that presents itself in the P&L, but in terms of labor productivity, probably one of the most important and most direct.

Larry Culp:

And as we go through a good bit of our spin prep, what this is allowing us to do is take yet another look at the corporate overheads for GE overall, as we lay in three discrete overhead structures for the Spinco making sure that they don't take an additional dollar of cost they don't want and need as they prepare for their independent status. So a lot here that we're excited about, we've got a \$2 billion cost out, gross cost out target for this year. And again, on the back of these operating reviews, we feel very good about the potential for us to deliver on that number this year. So if you step back from the delivery from the price and the cost activity, what you really see is this lean transformation in full flight. When you boil lean down to its basics, it really is about focusing on the customer, a maniacal pursuit of waste and the elimination of waste and an unrelenting prioritization.

Larry Culp:

And these have been critical, I think, for each and every GE business over the last several years, what we're doing is making sure that we're driving, day in, day out, improvements in safety, first, quality, delivery and cost in productivity. And the approach here is not to put together a to-do list, it really is a hands on, "let's get it done, let's get it done today, let's get it done this week" approach, which I think is quickening the operating cadence in the business. As we do that, that also infuses the cultural transformation that's underway, and you see that in the white space there, we talk about humility, we talk about transparency, focus, these are the leadership behaviors we want every GE leader to embody in their daily work.

Larry Culp:

This is a multi-year effort. We won't be done by the time the spins occur, but as I'm with our leaders, as I'm out with businesses, this is really taking root in our businesses deeply. And I think it's going to change, not only how we operate and how we perform, but the underlying culture, which will drive those results over time and make them truly sustainable. We're in a different place today than we were a few years ago, with respect to the balance sheet. And it really puts us on a far more offensive footing.

Larry Culp:

And what you see here is how we're thinking about capital allocation priorities. Clearly, first and foremost, we want to drive better organic growth, profitable growth, not just market share for its own sake. That impacts how we sell, new product introductions, let alone how we continue to invest in technology longer term, couple of pictures on the right capture some of those sales wins. We got our first HA gas turbine in Vietnam recently. Very excited about that. The new Sierra three megawatt wind turbine is launching now here in North America. Another important new product introduction force in renewables and our adaptive cycle XA 100 engine back in March completed its second engine test. Key technical milestone there.

Larry Culp:

So, again, these are the three organic priorities that are front and center for each of our businesses. What we want to do is make sure that's not only on strategy, but couple that with smart M&A. And we've been able to do a few things, notably last year with BK medical and healthcare, to accelerate the implementation of our strategy, to further define our competitive advantage through smart capital allocation. But opportunities will present themselves with respect to the stock itself. And you saw the board authorized back in March, a \$3 billion buyback, we've been in the market here of late. We think that's a good investment, a good return opportunity for the GE shareholder. So a lot going on here, both organically and inorganically, as we prepare for the future.

Larry Culp:

Speaking of which, back in November, and Brendan, it's kind of hard to think back, it's been seven months since we shared with everybody our intent to further the decentralization effort to set ourselves up on a path to spin healthcare, to spin energy co, and to have the go forward GE be our aviation business. I think we've made a lot of progress over the last seven months. We said healthcare would go first, early in 23. So we're almost at the halfway mark. It's kind of hard to believe that time has flown that quickly. But I think the customer response has been strong, the progress with the underlying rewiring and re-plumbing of the businesses to prepare them for their independent states has gone very much according to plan. And I think what we see is that the focus and alignment, the accountability, the opportunity to really be focused throughout the organization on performance, in each of the verticals, we saw plenty of that over the last three years, but we've certainly seen that take a different level here over the last several months. And we're excited about the path that we're on, here. Really no change to the timetable. Again, healthcare early next year with energy to follow approximately a year after that.

Larry Culp:

And then just to wrap up, again, I think that this story can be simple if you let it. And it really comes down to three leadership businesses and important growth markets poised for the future, an operating template that is very much fit for today, but ready for tomorrow across each of the three. And we stand ready to have three GE offspring here before too long. Proud of a 130 years of GE heritage, lots of core strengths in terms of technology, the installed base, let alone the teams. But I think a future that we're equally excited about and pleased to have the opportunity to share some of that with you this morning. Brendan?

Brendan Luecke:

Outstanding. Thank you so much for the commentary. It's great to hear an update on the story on durable franchises and lean discipline. It's simple, right? But there's been a lot of complexity between A and B.

Larry Culp:

You bet. You bet.

Brendan Luecke:

As you look back, it's been a year since we chatted last, the SDC. What have been the biggest surprises for you, the upside or downside of the GE story and where have you had the greatest learnings?

Larry Culp:

Yeah.

Larry Culp:

Well, a lot has happened, right? I think we were really just on the cusp of having announced the GECAS transaction last spring, which really set all of this in motion. The announcement there in November, the opportunity to have everybody come down to Greenville to see a lot of the lean transformation in progress, let alone the macro scene.

Larry Culp:

Brendan, I think first and foremost, this idea of accountability, given the prospect of the spins, has probably been as expected if not more so, right? It's one thing when you're inside of a company, particularly a company as large as ours, reporting to corporate on a regular basis. And we're involved, we're active. But, I could see in the run up to the investor meeting in March, where the CEOs and their teams were going to be on stage for the first time, with the prospect of the spins. And it focuses the mind, I think, in all good ways. I'd say, secondly, from a lean perspective.

Larry Culp:

I know some investors think, well, gosh, that sounds old school. Is that really important anymore? From the day I joined the board, from the time before I joined the board, I was just convinced that a lot of what we do, not only from a manufacturing perspective and from a service perspective, but just the approach to running the businesses would be well served. And that has been tested, right? Not only in the current environment, but with the prospect of the spins. And I think we've seen that stand the test of time.

Larry Culp:

And if there's one other idea, I would just say, we have been reminded time and time again here of the importance of getting the team right. The differentiation in performance, in culture, when you get the leadership equation right, regardless of the size of the business, is significant. So a lot of what we were getting an update on, evaluating, probing over the last three weeks is just, where are the teams, right? Not with respect to the technical matters relevant to preparing for the spins, but how well prepared are they? How durable is their trajectory with what lies ahead? And again, we feel good about that.

Brendan Luecke:

That's excellent.

Brendan Luecke:

So I'd love to pull on that thread just a little bit with the team and with culture, specifically. So I mean, GEs workforce parallels, a small city. I've been in lean operations before. It's a mindset.

Larry Culp:

Right.

Brendan Luecke:

How do you, I mean, it's more complicated than changing the top 50 people or,

Larry Culp:

Sure.

Brendan Luecke:

Or moving a few dozen up a curve. How do you drive that through such a big organization so quickly?

Larry Culp:

Well, it's been three and a half years. I don't know if that meets your definition of quickly.

Brendan Luecke:

Point taken.

Larry Culp:

I see progress. I see opportunity everywhere I go. So we're far from done.

Larry Culp:

Brendan, I think it really comes down to being consistent, right? This is not something where we've hired a bunch of consultants to go into the middle of the organization and preach. And [inaudible] for having done something, right? This is really an approach, top down, that is hands on. Be it in the operating reviews I was referring to.

Larry Culp:

I'm headed off Sunday to Wales, spend a week, actually on a Kaiser team myself. Now, I won't add a lot of value in that environment, but I'll help set a tone relative to this being important. And I'll learn a lot about the businesses. That's what we did back in October at Lynn. And I think at every turn, making sure that people understand that this is not some sort of merit badge to earn, but it really is the way we're going to run the businesses. This is the way we're going to lead.

Larry Culp:

Helping people get up that experience curve. And at every opportunity, I can help coach somebody up, teach them, or perhaps, if they're not with us, right? Take that into account as we think about the evolution of the organization. So it's really, I wish there were silver bullets here, but it really is the cumulative effect, that game of interest we talked about, over time. And when you look at what we're being tested by right now, the team isn't flinching, far from perfect, but this is an environment where supply chains are so rattled.

Larry Culp:

It'd be easy to pull up and say, let's not implement pull right now. Right? Let's do that when things are calmer. That's not the mindset. Mindset is, this really works. This is better for us. Forges a better relationship with our supplier, let's stay with it. So in that instance, I know the team's on its way. My role is really to make sure they get the support they need.

Brendan Luecke:

That's remarkable transformation. I'd love to talk briefly. You mentioned the macro, there's a lot of noise in the economy. It's hard for investors to look through that.

Larry Culp:

Right.

Brendan Luecke:

How should we think about parsing out sort of the exogenous versus the controllable, as we look over the last couple quarters and probably the next few.

Larry Culp:

Right.

Larry Culp:

Well, that's hard, right? Hard for investors. Even at times, I think hard for us. And we really have tried to understand those cross currents and that's a laundry list of things that are real, that we hit on earlier.

Larry Culp:

Okay. That's our reality. Let's go.

Larry Culp:

And as you saw, I think on some of the slides, we want to make sure we don't lose sight of the fact that as tough as it is, how many people saw orders up 13% in the first quarter. Right? I mean, I think that's an enviable position. Speaks to the strength of the aviation recovery, speaks to what's happening in healthcare in particular. All the more, we saw services growth in all four businesses, right? So, as we emerge from this pandemic period, I think it really is up to us to make sure we are actively controlling the controllable.

Larry Culp:

So whether it's delivery, whether it's price cost, some of these efforts I think will present themselves in our performances. We ramp through the course of this year and go into 23. We can always spend time at quarters end teasing out this or that. But I think we want to be careful not to create a lot of oxygen for undo analysis, or excessive analysis, I should say, when what's most important for the GE team is to execute.

Brendan Luecke:

Okay.

Brendan Luecke:

Macro again, recession. We hear a lot of chatter about that. Hopefully not coming.

Brendan Luecke:

We think about you sort of a long term, long cycle sect of the growth story. How do you think about the possibility of slow down and the impact on the business?

Larry Culp:

Well, I don't think our crystal ball, relative to the macro, later this year, 23-24, is necessarily any better than others. Clearly going to see with the fed actions, different impacts in different businesses. However, when we look at that backlog that we referenced, right? 80% of which is in services. We look at what's happening in aviation and the absolute trough level that the industry is operating off of today. The tone, the tenor of the conversations around really modernizing healthcare infrastructure.

Larry Culp:

And again, that's a global conversation. It's not something that we hear about in any one part of the world, public and private. That just sets us up, I think. Well, and when you look at energy, there can certainly be some businesses that are not going to benefit from the energy transition as much as others. But between the growth that we're seeing in services, what we're seeing in grid automation, clearly offshore wind is poised for a decade long run. Gas is a different, I think, a quite different role today in

Larry Culp:

... in the energy transition, onshore wind, little bit of an air pocket here. But we think will be a good decade long play. There's a lot that we're going to be able to do, again within our control, a little bit outside of the economic cycle. And we just need to make those realities come true.

Brendan Luecke:

Makes sense. Why don't we pivot and talk the businesses briefly, and then touch on the spins.

Larry Culp:

Yeah, sure.

Brendan Luecke:

And a bit of financials. So I guess healthcare first spin. So we'll talk about it first. You've got an enviable portfolio of solutions under the GE umbrella. As you think about the workflows and the products that serve your customers, where do you see the greatest opportunity for this business to add value? Could be organically or inorganically.

Larry Culp:

Right. Right. That's a really important way to look at the business. You say workflow, I smile. Traditionally GE Healthcare, I think, has been viewed as a box business. Big box is expensive. Understandable.

Larry Culp:

But from the first time I met Pete Arduini, our CEO, who started earlier this year, Pete who actually started his career at GE in healthcare, Pete really thinks in terms of workflows. So whether we're talking about some of the areas where we're most excited, be it cardiology, oncology, neurology, or even orthopedics. That view of really seeing life as the customer does, back to lean, I just think incredibly important. Important with respect to how it impacts, how we go to market, how we think about innovation and new product introductions, let alone M&A.

Larry Culp:

So those are the areas where you'll see us focused. This is, I would say, still early innings for us, Brendan, relative to making that a reality. But we have new sales leadership. And I think virtually every region of the world today completely bought into that approach.

Larry Culp:

You're going to see new product introductions, more geared toward workflows over time. And I mentioned earlier with the prepared remarks, the BK Medical transaction we did last year, theirs is very much a lateral workflow orientation. So important capability for us to bring into our ultrasound franchise, but also an opportunity for us to go to school on them, to help accelerate our own workflow orientation.

Larry Culp:

So a lot to come, but those are the four areas where you'll see us focused.

Brendan Luecke:

Excellent. Thank you. So I guess looking to the quarter, at least last quarter, I mean, obviously a bit choppy with component shortages and pressure on margins. Can you comment on how these things are trending quarter to date? And if they don't normalize near term and midterm, how would you think about running the business differently?

Larry Culp:

In healthcare in particular?

Brendan Luecke:

Yes.

Larry Culp:

Yeah. Well, certainly been almost a year now where we've seen significant demand, and effectively high single digit levels of growth being held back because of the supply chain issues.

Larry Culp:

That red flag chart that I showed earlier, in addition to a number of other things that we're doing, I think gives us optimism that we're going to be able to drive the sequential step up through the course of the year. Just got news earlier that Shanghai has begun to reopen. I saw some pictures that were deeply gratifying to see people in our factories, particularly our PDX facility that has been operating at far less than capacity. We'll be back I think at a hundred percent as early as Monday of next week.

Larry Culp:

So those are the sorts of things that I think we are doing. If things get worse, if they don't normalize, who knows what normal is anymore, Brendan, I think we just do what we've been doing. It'll be choppy. We're not predicting a calmer season the second half.

Larry Culp:

But what we've been doing with respect to price, what we've been doing in terms of productivity and cost, the way that we are really looking at our flows to reduce cycle time within our facilities, lead times

with our vendors. In some cases, working more closely with them. In some cases, frankly, resourcing and going either to a dual source or a different provider.

Larry Culp:

Again, no one magical solution, but a host of different approaches to navigate through this period. If it continues to be like this, I think we're running the play that we should be running.

Brendan Luecke:

Excellent. And then flip side of margin price. And back in Greenville, I think Pete made some comments around pricing pressures in the imaging business. Not unusual for medical devices of course. Are you able to take price effectively given that long standing industry dynamic? Is that starting to change?

Larry Culp:

It is starting to change. And I think we saw that in the first quarter where our order price index, which is really the leading indicator of price, we got to get the order, we have to book it at a better price, was positive for the first time in some time.

Larry Culp:

Again, we've reset the leadership teams around the world. They take this personally, they set the right tone. Most importantly, they're helping reinforce, teach, coach their sellers as to how to have difficult conversations. That helps.

Larry Culp:

Now, I think most investors want to hear that. They want to see it in the P&L. Given the backlog, a lot of what we have been building up has better pricing in it. In addition is we work through the rest of this year, some of the longer lead time items like MRs, we'll go out, we'll see better pricing there. Some of the shorter cycle businesses, we'll present better pricing in the near term. But we would expect, given what we think will ship here in the second quarter, that we'll see our sales price index go positive. So progress, more to come, but certainly work to do.

Brendan Luecke:

Excellent. Why don't we pivot to aviation. Just watching the clock here. So next leg to recover here, it feels like it's clearly wide body after market. What are you seeing in the market in terms of customer demand?

Larry Culp:

Well, I think you're right, Brendan, wide body's coming, but narrow body is still just starting. I mean, if you look, you've heard me say before, the first thing I do when I wake up is look at that global departures number. We're north of 80% of '19 levels, clearly a narrow body led recovery. These are still early days. And we see this in terms of just the pressure, the welcome pressure around our shop visits, parts and everything that we do in the aftermarket.

Larry Culp:

So I think our macro view here is really unchanged in so much as we think narrow body departures are back early next year in line with '19 levels. Wide bodies are coming. I think we're up 70% of where we were in '19, but it's probably going to be '24 until we see wide bodies at the '19 levels.

Larry Culp:

Clearly the biggest variable there is going to be China, relative to what happens both in China, relative to welcoming visitors and their own travel. But that I think is a framework very much in line with the IATA numbers. And what we've said over the last couple of years.

Larry Culp:

I know our good customer, Ed Bastian, is going to be up here when we're finished, from Delta, talking about this from his perspective. But that's the house view TODAY.

Brendan Luecke:

Excellent. And you mentioned shop visits, my ears perked up, in Q1 I think you mentioned 18% versus an annual guide of 25 for your shop visit numbers.

Larry Culp:

Right. Yeah.

Brendan Luecke:

And supply chain was the culprit there again. Is there a supply chain challenge in the aftermarket for aviation service?

Larry Culp:

For sure. But again, it's a myriad of issues inside of our four walls and with our suppliers. We own it all. So, we never want supply chain to be code for a finger being pointed at a supplier.

Larry Culp:

But again, material flow in our own shops, breaking bottlenecks, increasing yields, critical to driving better flow. We've had a couple of situations just over the last 90 days because of COVID, even here in the US, where we had a number of facilities that were running at less than full capacity, because we had people in quarantine for a period of time. Those dynamics have been playing out with our suppliers as well.

Larry Culp:

But I think an important part of what we're doing here is, again, resetting our relationship with our suppliers. I'm not sure we've always been anyone's best customer. Not that you aspire to that. But in times like these, really tight, clear links with the supply base is critical. It's critical relative to safety and quality, certainly delivery and productivity.

Larry Culp:

So a lot of this lean work with the supply base is geared not toward just trying to get product out and clear backlog, while that's important, both in the aftermarket and our air framer customers, need more of what we do. But we want to make sure that as we go through this work, we set ourselves up for

whatever may come in the future to be more closely aligned, better linked with those suppliers regardless of the environment.

Brendan Luecke:

Excellent. And then, I guess, just looking at the aftermarket a little bit here. It's hard not to get excited about the order book for your next generation engine sets. But they're more efficient. Do you anticipate, say in the midterm, lower aftermarket revenues as airlines may favor the newer kit?

Larry Culp:

Brendan, I think we, again, are coming off such a trough that we know we're going to be taxed both with the ramp, from the utilization of the installed base. I mean, remember with our CFM56 engines, roughly half, or 10,000 of them, haven't seen their first shop visit yet. So this is still early days in our view.

Larry Culp:

We know that both our major air framer customers have significant ramps in front of them. We appreciate the under wing positions we have on those platforms. We need to be ready for that as well.

Larry Culp:

But I think the retirements have proven to be far less than what some might have expected heretofore. And I think our view is that that likely will be muted as we move forward, just given the overall demand environment that we anticipate.

Brendan Luecke:

Excellent. It's great to have that line of sight. One last question here, just on innovation. I mean, there's quite a pipeline, between the RISE demonstrator, we hear about hydrogen hybrid engines. When you talk to your customers, air framers or airlines, how much conviction do you see there around the need for these new technologies?

Larry Culp:

Conviction around need I think could not be higher, air framers, airlines. But I think everyone's learning. Everyone's experimenting. But in terms of conviction, I think it's high. And I would argue it's high the world over.

Larry Culp:

I know you're going to have Scott Kirby from United on a little bit later. Part of our RISE technology development program, and really the first stage, was sustainable aviation fuels. So we were thrilled to be under wing for the first SAF test they ran with us back in December. One engine. But nonetheless, we proved that we can do that.

Larry Culp:

So we have a number of technologies which we would intend to demo by mid decade. You mentioned hydrogen, we've got hybrids, certainly our unducted fan engine as well. So there are a host of technologies that we're investing in.

Larry Culp:

I think if you talk to the air framers, you talk to airlines, they probably have different views as to how they see that portfolio of options. And those views evolve over time. That's the nature of technology, right? But an incredibly exciting period for the company, and I think the industry, when we talk about the future of flight in our leadership role. Probably going to be more interesting in this next turn than it has over the last several, but that's what GE aviation's all about. So we're excited to see how those rise bets play out over time.

Brendan Luecke:

Excellent. So turning to renewables, unquestionably the most challenging story in the portfolio at the moment. We got margin pressure, supply chain in the PTC in North America, not-

Larry Culp:

Right.

Brendan Luecke:

... An easy path. One of the themes that you and your team have highlighted over the last couple quarters is around project selectivity.

Larry Culp:

Right.

Brendan Luecke:

When we look at that, do you see similar discipline around project selectivity across your competitors? And is there a risk that project selectivity equals lower growth?

Larry Culp:

I think there's going to be a tremendous amount of growth in onshore, offshore and grid. I think we can afford to be selective. I think we have an absolute obligation to be selective and not just chase volumes that we can ring the bell. I think from the first time I met Scott, when he was down at gas power, he's understood what this looks like. Not only on a PowerPoint slide, but how to implement at the bid level. Right? When you look at them, I think the remarkable recovery and the margins in our gas power business, a lot of it is tied toward being smarter about scope, selectivity, price, terms, risk, all of that. Selectivity is big net. That's what we're doing in onshore wind. I think, when you look at the high single digit price uptake that we saw internationally in the first quarter, that's a function of that. We are going to see some volume that we're going to have to run off and, frankly, not replace because of commitments in the past. Some of which are harder and more painful to fulfill today, given the inflation.

Larry Culp:

But I think this is really the only way to run a big ticket technology business like ours. You mentioned competition. I think everybody in onshore wind and, I think, offshore wind, and even grid recognize that the industry needs to be on better financial footing. So I don't think we're the only ones looking to be more selective, to be more mindful of where we have strengths, where we have a basis to operate versus not. So that doesn't necessarily make us distinctive, but I think it does suggest that as things play out, as the industry evolves, and this is still a relatively immature market in some respects, that we can

deliver the margin profile that we've talked about. Both with respect to wind and, importantly, on the grid side of the business as well.

Brendan Luecke:

Excellent. And when we talk about margin, I mean, Q1 was tough for everyone basically. But in GE specifically you sort of had a volume challenge with PTC ramp down.

Larry Culp:

Yes.

Brendan Luecke:

In addition to the supply chain and the cost inflation that impacted everybody across the board. Can you parse that out for us? If you think about what portion of the slippage was volumetric versus cost inputs. It'd be very useful if you think about the recovery trajectory.

Larry Culp:

Right, right. Well, keep in mind, Brendan, that as painful as the first quarter was, I think we have telegraphed, we'll probably see a second quarter that looks, more or less, like that. I think if you're to dimensionalize the drivers, you really have to start first with the volume pressures that we're seeing in onshore wind in North America. Probably the best part of our renewable segment, given the policy uncertainty in Washington, we've seen volumes down dramatically. We're not the only ones, but having led that market with over half, about 50% market share the last three years. We are bearing the brunt of that. So that's about, again, two thirds of that year on year profit drop. And I'd say the other third really is the cost pressures that we are bearing that we have been unable to either pass along or offset.

Brendan Luecke:

Excellent. Thank you.

Larry Culp:

But I think as we go through the first half, second half step up, right? There are a number of things within our control, which have us thinking that we should see a significant improvement in our underlying operating profit. Still, likely to lose money in renewables in the second half, I'm not proud of that, rest assured. But I think it will be a sign of progress that will set us up going into '23. And by the way, I think the tone out of Washington here of late has been incrementally encouraging around greater clarity with respect to the tax incentives around wind at some point this year. That'll be good for us. Clearly, the first part of that would just be the order book beginning to be replenished in the down payments that come with that. Too early to call, but I think the news flow here in the last week, 10 days has been mildly encouraging in that way.

Brendan Luecke:

Great. We have one quick audience question here. Just from progress towards the \$3 billion target for offshore wind. And how you thinking about cross pressures on break even trajectory there?

Larry Culp:

Yeah, well, we were with the offshore wind team just last week in Paris. There's more activity underway in offshore wind than I think we would've anticipated early on. The early projects are going to be challenging for us, right? Break even's probably a good way to think about those projects largely because we are new. We're just beginning to come down the experience curve. And, as a newcomer, I think we didn't necessarily get the best Ts and Cs a year or two ago. But I think we're really excited about the Haliade-X, what we're able to leverage from a technology perspective, not only from our global research center, but also our experience largely in onshore wind. That'll be an important growth vector for us as we think about Energy Co and we... The sprint to 2030.

Brendan Luecke:

Excellent. And one quick question on power, and then we'll turn to the spins briefly here.

Larry Culp:

Okay.

Brendan Luecke:

So, Ukraine-Russia conflict, obviously evolving very quickly. We get nonstop news about the European energy mix. As you see it now, is it a tailwind, a headwind, a question mark for GE's power business?

Larry Culp:

Well, I hate to think Brendan about just such an unmitigated tragedy being good for our business. And as we've said before, we stand with the Ukrainian people. Their heroism really is breathtaking. I think, before the invasion, there were signs that this would be a year of pragmatism with respect to the energy transition. You go back to the European taxonomy and the way they framed both gas and nuclear's role in the energy transition. Even Larry Fink at BlackRock's letter, relative to how they were thinking about things. I think those were encouraging signs. And then we have what we're dealing with now.

Larry Culp:

So clearly there's going to be a sprint forward around renewables. I think there's real recognition that there's a limit to how much we can do without a true modernization of the grid. It's one of the reasons we're so excited about what we do, both from a hardware and a software perspective there. And the role of gas, right, is a positive, constructive force for good. Not only here in the U.S., but the world over.

Larry Culp:

So I think that is a tremendous setup. And if there is more pragmatism with the dash, more uncertainty, I think that lends itself to the approach that we've taken thus far, right? Where customers say, "We need help!" We don't need help here, we don't need help there, we need an all GE Energy Co approach all the more in this environment. So, again, we'd never want to say, "Hey, what the Ukrainians are going through is good for us." But I do think we're going to have... I think we are having a different conversation around the energy transition. One that is very much on strategy for GE.

Brendan Luecke:

Understood. Financials and spins, two quick ones. So one, FY '23 is coming up pretty quickly. Does the margin risk in renewables that's pretty choppy or, frankly, current market conditions, which are also

pretty choppy, affect your thinking at all around timing for the spins or how you may do things over the next year and a half?

Larry Culp:

No, no. I think when we laid this out, of course, we couldn't envision this environment. However, we stress tested a number of scenarios, options, alternatives, so that we were not necessarily planning for perfection. There were hosts of reasons why we concluded a two step process would be advantageous. We thought healthcare would likely to be ready.

Larry Culp:

That is true as we see things today, but we wanted to make sure that we launched three industry leaders, three investment grade companies ready to stand on their own two feet. So part of the logic in giving ourselves a little bit more time with the second spin, with Energy Co was to make sure that we were working through the issues we touched on earlier. So we probably would be challenged to SPIN Energy Co today, but that was never the plan, right? So we've got time. And again, given what we've seen here, just in the month of May, now June, what we're anticipating over the next seven months, I think we're on that path.

Brendan Luecke:

Excellent. And then one last quick one on finances. We talked towards lower end of the guide last quarter. Do you see any major, I guess, risks, upside or downside to that as we're approaching the Q2?

Larry Culp:

No, no changes as we sit here today, Brendan. I think the risks external, internal really are all around. How do we navigate through these supply chain issues if they obeyed a bit and we're able to get more product out, that's a good thing. If COVID lockdowns make operating in the back half, even more taxing in China that could run against us.

Brendan Luecke:

Makes sense. And then, I guess, final messages. There's a lot of complexity here, but I do think it's a simple story. If there's two to three things that you want to leave investors with here today, what would they be?

Larry Culp:

Well, I just go back to that last slide, right? Industry leaders and markets that matter. A lean transformation that will bear fruit for years and three outstanding companies ready to stand on their own bottoms.

Brendan Luecke:

Brilliant. Well, excellent. Thank you so much for the conversation. It's always a pleasure.

Larry Culp: Thanks, Brendan. Thank you.