## General Electric Company | Goldman Sachs Industrials and Materials Conference 2022 | May 12, 2022

Joe Ritchie:

All right. Well, good afternoon, everybody. We're in the home stretch, the afternoon of day three of the Goldman Sachs industrials materials conference. We're really excited to have with us here today, GE’s Chief Financial Officer, Carolina Dybeck Happe. I'm going to turn it over to Carolina for some prepared comments, and then we'll get right into the Q and A. And as a reminder, if you have any questions, feel free to shoot me an email at Joseph.Richie@gs.com. With that, Caroline, it's all yours.

Carolina Dybeck Happe:

Hi Joe. So thanks for having me. Thanks for giving us this special slot in the home stretch. So before we go to Q and A, let me just start with a quick update of what we're seeing and more importantly, what we're doing to drive growth and value across our businesses. So at earnings last month, we shared some important bright spots from our first quarter. And to recap, we talked about our high margin services that are recovering in all our businesses. Our total orders were strong and we continue to expand margins and improve cash generation.

Carolina Dybeck Happe:

We are managing increased pressures from inflation, renewable energy headwinds, and the Russia Ukraine war. We're also navigating supply chain pressures, including the impact of the COVID related manufacturing shutdowns within China. And as we shared last month, given the fluidity around the duration and the magnitude of these factors, we are trending towards the low end of our 2022 outlook range, but we remain confident in the recovery in the second half.

Carolina Dybeck Happe:

We're not quite halfway through the second quarter yet, and the team is diligently working through these challenges and we're taking action to drive growth, to drive pricing, cost out, and using lean to do that across the businesses. This really means growing higher margin services, businesses, adopting our supply chain, improving execution, particularly in renewables, and leading with innovation for our customers.

Carolina Dybeck Happe:

And we're committed to our selectivity strategy. Being more disciplined about our commercial deals, the pricing, the geographies, as well as the market segments, where we choose to participate. Through lean, we've been improving the way we work across the entire company. And lean has always been important, but it's much more critical right now. I can see this firsthand from working closely with both our commercial teams and our operational teams as we help them to scale in, and we're focusing particularly on pricing and productivity.

Carolina Dybeck Happe:

So we've heard questions from investors about that second half ramp this year. So importantly, let me start by saying GEs typical seasonality is back half loaded. If I give you context, take last year, second half of 2021, we delivered just over 50% of revenue, more than 60% of operating profit, 80% of net earnings, and more than 100% of free cash flow. This year, we expect similar but slightly more weighted profile in the second half. So think closer to about 55% of the revenue, 65% of operating profit, 75% to 80% of net earnings and more than 100% of free cash flow. So you can think about it as two thirds of the growth dollars coming in the second half is similar seasonality to what we saw last year, while the remaining, about a third, that's above that level. And that's because of the significant growth that we expect in aviation and in healthcare.

Carolina Dybeck Happe:

So what does all of that translate to? Well, if you look at the growth expectations from the first to the second half implied in the low end of our range, that's about 20% to 25% revenue growth. We'll call it seven to eight billion of revenue step up. We expect about half a billion of that to come from pricing and the rest from volume. If we take it down another layer and we look at the volume step up in a few different buckets, I would say we have higher conviction in the roughly two thirds of that step up, such as equipment and service volume that we already have in the backlog and where we have higher confidence in the supply chain from to meet that demand. This includes the businesses like Gas Power equipment and services, Aviation commercial services, and Offshore Wind. Then we have another 20% to 25% from areas where we have the demand, but where we're working through the supply chain challenges. And here, think about Healthcare volume and Military.

Carolina Dybeck Happe:

And then the last 10% ish is tied to, I would say, an area with higher levels of market uncertainty. Clearly the biggest thing here being North America, Onshore Wind volume, really associated with the PTC delays and the price pressure we're seeing across that industry. Nothing is certain in an environment where so much is changing day to day, but clearly we have a path to significant growth in the second half. Overall, we expect top and bottom line growth across the segments in the second half versus the first half. And that's supported by the volume growth, the price realization from orders in the backlog, and productivity initiatives that will help us drive down our cost.

Carolina Dybeck Happe:

Now, let me take a moment to provide some more detail at the business level, including an update on how we get to that second half ramp. Aviation is at the beginning of a significant industry recovery. The team had a good first quarter, more than 30% orders growth and double digit revenue growth, and over 300 basis points of margin expansion. We are expecting shop visits to continue to ramp through the remainder of the year, driven by the ongoing recovery and the growing customer confidence. And that will support 15% to 20% higher services revenue in the second half versus the first.

Carolina Dybeck Happe:

We're also seeing significant step up in both Commercial and Military with a 20% to 30% higher sequential equipment revenue. This puts us on a path for full year revenue growth of 20% plus and mid tense margins, as cost productivity offsets the negative mix effect that we will see from the OE ramp.

Carolina Dybeck Happe:

Healthcare demand remains strong. As public and private investments in the sector increases, we're poised to capture it. Our challenge here is delivery, but we remain confident in the long term prospects of our business and its recovery. For example, orders were healthy in the first quarter, up 8%. In the near term, we anticipate some easing of the supply chain constraints, but with continued price cost pressure. And we're also closely watching the impact of China. We expect supply and inflationary challenges to persist at some level through 2022, but with sequential improvement. And it will depend on the degree to which the supply constraints ease, but also our ability to drive pricing and then enable productivity. Importantly, though, we expect to convert orders to revenue and reduce that overdue backlog by about half as shortages of make.

Carolina Dybeck Happe:

So in all, we would expect to drive 10% to 15% higher revenue in the second half with further improvements in 2023. As mentioned, Renewables had a challenging first quarter and we're intently focused on driving the selectivity strategy, driving price, driving cost down, and better execution to improve our performance. In the second quarter, we'll likely see similar pressures as in the first quarter with Onshore down significantly year, over year, based on lower U.S. volume and mix and higher inflation across the segment. Our full year performance will depend largely on that North America volumes and the inflationary environment. And of course the execution of price and our own cost actions. We do have line of sight to better volume and mix at Renewables in the second half with a favorable Onshore Wind mix from high North America market volumes and margins and Grid Automation growth and Haliade-X deliveries will also contribute to the growth.

Carolina Dybeck Happe:

At Power, we're encouraged by the steadily, improving performance, continued strength in Gas Power last quarter, and stabilization in Steam. Orders were up 19% in the first quarter. And if we look at the second quarter, we expect to have seasonally higher outages, but still lower year over year, really due to the maintenance intervals. So for the full year, we expect 25% to 30% higher sequential revenue in the second half versus the first half. And this will be driven by the outage growth, Aero services, and more equipment deliveries. And we of course also expect margin expansion driven by that revenue growth by cost out and the continued improvement that we see at Steam.

Carolina Dybeck Happe:

All this progress gives us confidence that will continue to drive improvement in the second half leading to the low end of the outlook that we discussed at earnings. And with the significant debt reduction that we have completed over the last few years, our balance sheet has become a source of strength, enabling us to play offense and invest in the business growth while pursuing capital allocation alternatives like the opportunistic share buybacks, which we've begun to execute. Given the valuation upside we see in the equity, we think this is good use of capital.

Carolina Dybeck Happe:

This is an exciting time for us as we are prepared to stand up three industry leading independent investment grade companies. And we are on track to launch healthcare first in early 2023. And with that, Joe, let's go back to you and questions.

Joe Ritchie:

Carolina, thank you. That was very helpful in helping to frame a year that I know that a lot of people are interested in a lot of those details. Before we dive into some of those details, I wanted to ask you on your approach to guidance, right? You're now trending towards the lower

Joe Ritchie:

... lower end of the range. There were several opportunities throughout the quarter to give an update, including the investor day in March. So I just want to understand a little bit more when you guys think about changing the guidance for the year, how are you thinking about, under what circumstances do you make the change?

Joe Ritchie:

I know we're talking about the lower end now and did things materially deteriorate since the investor day? In that we are now talking about the lower end, as opposed to the mid to the upper end of the range.

Carolina Dybeck Happe:

Well, Joe, I'll start by saying that several areas did deteriorate meaningfully since our investor day. If you think about it, where we are on inflation, where we were then, look at the spot buys, we talked about logistics.

Carolina Dybeck Happe:

I would say the Russia-Ukraine war happened, continues. The China COVID impact also more severe and also the Renewable outlook. So you put that together, that's really what drove us to move to the lower end of the guide. And in general, I mean, we are navigating this very dynamic environment, so to say.

Carolina Dybeck Happe:

And we are intently focused on the inflation, the impact from the Russia-Ukraine war, talked about renewables, the supply constraint and China. It is still early in the year though and when we talk about macros like that, I would say both the duration and the magnitude of this is pretty difficult to call for the full year.

Carolina Dybeck Happe:

So we do our best on that, but what we really focus is what we can impact in our own execution. And if anything, we're focusing on managing what we can manage. And that's why we talk so much about how we're driving growth, the selectivity, the right type of growth, how we're pushing pricing, how we're pushing cost out and cost out in many different ways.

Carolina Dybeck Happe:

You have it in sourcing, you have it in productivity, you have it in restructuring. So we're focusing on the initiatives that are really within our control to help drive the results that will then in the end, be our actuals.

Joe Ritchie:

And that makes sense, Carolina. And I guess in the way that you framed the guidance for the rest of the year, the two thirds that's sitting in backlog, that seems like you've got some good visibility into that piece of it and you feel confident there.

Joe Ritchie:

There was the piece that obviously, relates to Renewables, which calculated at about 10%, that seems to be potentially a swing factor. And then there's the piece in the middle, which is supply chain oriented. So help us gain confidence in the pieces that are not in backlog today, where you're navigating supply chain, where you're dealing with the renewables environment and ultimately, what drives a good outcome in those two buckets?

Carolina Dybeck Happe:

Well, I would say again, it is early. So of course there are scenarios where if you think about the headwinds that I mentioned, depending on how severe they are, they could also help us get to a better part of our range. And yes, we've talked about the growth from the first half to the second half, and that's why I framed it that this morning, that if you think about it, that you have this with the two thirds that are basically in backlog, and that we have confidence in delivering 20% to 25%, where we have the demand and the orders.

Carolina Dybeck Happe:

And I mean, there is also going to be the situation of supply chain, but also what we are doing to improve the opportunity to deliver. And we're doing a lot of different things there to deliver for our customers. I mean, it's not one thing, it's a lot of different things. For example, we are qualifying different or new components instead of the ones that we have a hard time getting so that we can manufacture and then deliver to our customers.

Carolina Dybeck Happe:

We going to call it rearranging our supply chain even to make sure that we can deliver. So in that part is also really, really important to get out. And then it comes to the part where more of the PTC dynamic will play a part. I would say, what is important is that we deliver on the orders that we have, and we make sure that we continue to improve the way we run the business and also by taking cost out so that we mitigate some of that risk that is coming from that part of the top-line.

Carolina Dybeck Happe:

But I just wanted it to be very clear on the different pieces, because it almost puts it into different buckets. It makes it easier to understand how we see that growth from first to second half and why the trajectory there makes sense with the seasonality combined with the growth in Aviation and Healthcare.

Joe Ritchie:

Well, that makes, that makes a lot of sense. And just to be clear on PTC, since we haven't gotten an extension embedded in the guide right now, is there any expected extension embedded in your guidance for the year? Or is it just based on the backlog that you know today, I know that you mentioned in your prepared comments that you would see a benefit from Grid and from Haliade-X as well.

Carolina Dybeck Happe:

So what we have is that we expect to see some decision, but later on in the year, and if you think about it like this, you would basically need six months from when an order comes to delivery, which means that in your convertibility, which you would show up in the P&L, you would need to get the order, excuse my being Swedish…

Carolina Dybeck Happe:

I'm going to call it before mid-summer. If you get the order before mid-summer, then you can convert within the year as written in the P&L. So what's in our guide is that we expect a decision within the year, not before mid-summer. That's really the only impact that we would see. And that's within that 10% of the top-line risk that we're mentioning.

Joe Ritchie:

Got it. That makes sense. I've asked every company this on China, I know it's fluid, you just reported two weeks ago. So, but it's a situation that obviously, is clearly evolving. Maybe just talk a little bit about how China is impacting your business.

Joe Ritchie:

And I know we get the question all the time around, the arrow piece of your business specifically, but any thoughts around China and how that's evolved since you reported earnings a couple weeks ago?

Carolina Dybeck Happe:

Yeah. I know, you'd say time flies, but it's actually only two weeks. So not much.

Joe Ritchie:

It feels longer that's for sure.

Carolina Dybeck Happe:

Not that much time. It feels longer, I'm with you. It feels longer. I would say we haven't seen any material changes in the COVID situation, in China and for us, it's how it impacts manufacturing, but it's also the utilization of people. Well, flying less in China clearly.

Carolina Dybeck Happe:

I have to say though, because I literally just came back from business review with the Healthcare team, where the head of PDx was there and talking about how the team is really solving for the end customer.

Carolina Dybeck Happe:

And you can think about it in Healthcare, we really talk about patients and how the team is working in China, in the factory. And moving from having 60 people onsite manufacturing, now being able to have 101 people onsite driving manufacturing of our products, which are key because there are customers all over the world waiting for those products and the customers are patients.

Carolina Dybeck Happe:

So it's really about saving lives. And I have to say what we saw and heard from the team, including the team from China, who then had to Skype in of course, because of this situation, very impressive and strong resiliency and amazing creativity to solve for the customers.

Joe Ritchie:

Got it. That's helpful and good to see if there's been some progress there. I know we're focused a little bit on the near term right now, but it is top of mind for everybody, I'd say from a free cash flow standpoint that the 2Q free cash flow number being negative.

Joe Ritchie:

I think it was probably something that surprised people a little bit. So maybe just walk through some of the dynamics on what's driving negative free cash flow in 2Q.

Carolina Dybeck Happe:

Yeah. Sure. So if we start with free cash flow and our, I would say seasonality, we expect free cash flow to be better in the second quarter, but still negative. And if you do it business by business, with Aviation, clearly we would expect to see earnings growth and that come through in profit and cash.

Carolina Dybeck Happe:

Some inventory build to offset some parts of that, but strong deliveries from Aviation. Healthcare, better sequentially, but worse year-over-year. And it's really because of the hampered top-line. Renewables, also better sequentially, but worse year-over-year, which I talked about earlier with the lack of the volume and therefore the losses.

Carolina Dybeck Happe:

I would expect to see working capital improvements in Renewables in the second quarter, but it won't be enough to offset the lower profit. And then for Power, I would say flat sequentially, and basically year-over-year. We have some working capital pressure here because we expect lower down payments or progress payments in the second quarter. And also some inventory build for the second half.

Carolina Dybeck Happe:

Corporate, I expect to do better, including capital. So some headwinds there, but overall to do better. So overall, the improvement but still negative is really due to the pressures that we talked about in Renewables and in Healthcare.

Joe Ritchie:

Okay. That's helpful. When we started the year, there was a bridge to get to your free cash flow number for 2022. And we know that net income number has come down a little bit, but still call it roughly around three billion, maybe a little bit more than that number.

Joe Ritchie:

I'm just curious whether there are any other pieces of that bridge that have changed. So specifically,

Joe Ritchie:

... Typically, working capital was supposed to be a $3 billion tailwind. AD&A was supposed to be about a half billion dollar headwind to net income. Just any thoughts around the major pieces of the bridge and whether that's changed at all.

Carolina Dybeck Happe:

Yeah. Joe, I know you were with us at earnings, but everyone remembered that page, even the page number. So did I. So clearly a page to look at. Well, I would start by saying of course income or growing profit is going to be an important part of the free cash flow in 2022 because even at the lower end of our range, if you compared to last year, sort of 1.71 and the lower range at 2.80, we have a significant improvement in profit. So that's an important part of free cash flow for 2022. If you look outside of that, I would say where there would be pressure is on the inventory side. Sort of I'm assuming that some of the inventory will still be WIP because you don't have all the components and you can't ship everything. So some pressure on working capital, I would say, especially from inventory. But I would say overall, we're comfortable with the low end of our range. We talked about the range from five-five to six-five, and I would say the five-five that's appropriate with what we know today.

Joe Ritchie:

Can we dig into the net income portion and really start digging into some of the segments because one of the biggest questions I've gotten is how quickly will Healthcare snap back. We can talk about 2023 in a minute, but just maybe focusing on the now. You're seeing a lot of supply chain constraints, right? That are impacting the business. I think you called out seven to eight points of growth in the Healthcare business that was impacted. How do you see this playing out over the next few quarters? And then we can talk about how does this look in 2023 and how quickly can Healthcare snap back in 2023?

Carolina Dybeck Happe:

Well, if you start with Healthcare, it's important to sort of acknowledge that it's not a demand situation. It's really an output situation. And we had significant pressure in the quarter and we do expect to see that sort of continue to see pressure for the second quarter. Not going to quantify yet, but we do see good progress. We've talked about where the shortages were, we've talked about semiconductors. I would say today, probably two thirds of where we have shortages are electronics related, but we do expect that to slowly improve through the year. And that's also what we have in our outlook for 2022. And I mentioned earlier, we've also worked to literally redesign products to find work around so that we can deliver to our customers. Redesign supply chains have multiple sourcing. So we're doing quite a lot to make sure that we can solve for our customers.

Carolina Dybeck Happe:

We're also working on increasing price here. And as you know, this is not an industry which has a tradition of price increases. So that's also been an important part for us, and it's been really good to see the team. You know, you start to see price increases in the orders, and then when the orders are shipped, you sell it in the revenue. And it's been really good to see that in orders already in Q4 last year, we started to see positive trending and now continuing in Q1, but the impact of more of that orders being delivered as revenue, we expect to see more of that in the second half. And that will also help both on the top line, obviously on the margin.

Carolina Dybeck Happe:

So I would say we are taking a lot of actions in the situation, the way it is. We are well aware of the risk that we have on sort of supply chain constraints and the situation in China clearly under a lot of scrutiny, but we are really focused on what we can control and how we can step out of this. And what's in our guide is also, if you think about it, with the orders coming in and part of them being shipped towards the second half, I also mentioned that we would expect to have half of what today is overdue backlog out by year end. So basically that would help the growth in the second half, but that would also help continue growth into next year in 2023. And that's also why we expect to continue to see really good growth in 2023 for Healthcare.

Joe Ritchie:

I'm not sure if you have the number, but for what's in backlog that's going to ship, I'm assuming that's higher price backlog and you called out half a billion dollars, second half versus first half. Is a lot of that coming through Healthcare or is it coming across the different businesses?

Carolina Dybeck Happe:

It's across the different businesses. Healthcare is one of them, but it's across the different business.

Joe Ritchie:

Okay. Okay, great. And then it sounds also, again, maybe hard to put a number to it at this point, but when you take a look at the profitability of this business, 2020, 2021, it was like high 16%, low 17% type margin. It's going to be hard to replicate that this year, but as we think about next year, is there a path to get back to those types of margins that quickly?

Carolina Dybeck Happe:

Yes.

Joe Ritchie:

All right. Great. Shifting gears a little bit. I want to talk about Aviation. So again, Aviation it's on its path to recovery, put up a good quarter of this quarter. The aftermarket business grew strongly. I think you mentioned that shop visits are expected to pick up also in the back half of the year. Talk to me a little bit about what's been going on from a shop visit perspective. Was there any disruption in the second quarter also that we need to be aware of in that business? I mean, you put up good margins, but it was just curious whether that was impacted at all and then how you see that over the course of the rest of the year.

Carolina Dybeck Happe:

I know you're ahead of us, but you mean the first quarter. Any disruption?

Joe Ritchie:

Oh, that's what I meant. Yeah.

Carolina Dybeck Happe:

I would say it went pretty well. We had some work stops where were basically it takes longer to finish, but overall a good situation. You know that the aviation trajectory is very steeply increasing in the second half, both from utilization, but also therefore from shop visits. So what we are seeing is that we expect that trend to continue not only in 2022, but also in 2023. And we've talked about how we expect narrow bodies to be back way before the wide bodies. Narrow bodies by '23, wide bodies by '24. And on the shop visit, it also depends on what kind of shop visit we're seeing. And what we are seeing is that basically revenue per shop visit is growing. So higher scope, which means that we make more money, so that's also positive. So that's what we expect to see, not only through this year but also next year.

Joe Ritchie:

And the pricing, I'm getting a question from the audience regarding the pricing in your LTSAs to help protect the cash margins, to help offset inflation. How do you feel about the pricing that you're getting in your aviation business today?

Carolina Dybeck Happe:

I would say that in Aviation, and this CSA is sort of... We have inflation escalators. So basically we are getting good coverage on our service contracts. And you continue to update that. So there's sort of an index that you continue to update and then you are allowed to then invoice, including the escalation of the inflation. So I would say in Aviation that's good.

Joe Ritchie:

Got it. Great. One of the questions that I've gotten a few questions on the spins, and so given the backdrop that we're in, Healthcare being impacted from a supply chain standpoint, we know about some of the issues associated with renewables as well this year. A few questions from the audience have been, does this put into risk the timing of the separation of either the Healthcare business and the part of 2023 or the Power Renewables business in 2024?

Carolina Dybeck Happe:

We are on a good path to execute on our spins. I'll say that. It's a lot of work. We have like nine work streams with everything moving on. We're covering everything from what you asked me often about, the capital allocation. And we talk about balance sheet. We talk about legal entity separation. We talk about tax. We talk about untangling lots of things, but we are clearly on the path. And that's what I mentioned this morning as well, to spin Healthcare early 2023. So all going well and all on plan, a lot of work, but all on plan.

Joe Ritchie:

I'm sure it is. I'm sure it's a done of work. Okay. I want to go on and talk about Renewables, clearly a hot topic of discussion. Onshore, I think you guys have called out some international projects that you're still kind of working through some legacy backlog. I'm just curious what are your thoughts on when we finally work through some of that backlog and start to get a cleaner line of sight into improve profitability in the business?

Carolina Dybeck Happe:

Yeah, so on Renewables and on the backlog, maybe just to sort of frame it, Renewables as a total has about 32 billion of backlog, roughly half of that is Onshore Wind. So say 16, and then a quarter of that is International. It gets you to four and out of those, I would sell probably less than 2 billion, our, our really legacy project or challenged projects. So that's sort of the area where we have the issues. And then I also talked about Grid and actually Grid was, I mean, it was about 3 billion when I started in that backlog. Now we are less than a billion of what I'm going to call legacy backlog. And Grid expects to be through that backlog in 2023. So that's really sort of sizing it so that people don't confuse it with the total for Renewables, I would say, of course it's important for us with the PTC. And it's important for us that something happens in the US that then we'll get our customers to take decisions and move forward with new projects. What we are doing as well is sort of not only waiting for that, that's an important part, but we are also together with the team, with Scott and Philip and many other team members, really looking at what can we do to improve the business with what we have. One thing is making sure that we follow selectivity, both sort of geographically, but also within what segments. And then it's taking a hard look at different sort of cost structures and seeing what can we afford where, but I would say if you take all of that together, the team is working through a lot of opportunities as well. And I have to say with full confidence in the team that together we'll get to a much better position where we have healthy growth and a business that's making money.

Joe Ritchie:

And the one piece of the backlog that you didn't discuss, that's still kind of early stages and is still ramping is really the Offshore side of the business. And I know that backlog has now grown to roughly $7 billion. The view on GE's Renewable business is that you're going to approach break even next year. I'm just curious, as you were writing that the contracts for that backlog I'm sure has changed, right? We're in a more inflationary time than when some of those contracts came in the backlog. Are you assuming some kind of negative profitability from that, from the offshore business, and then how does that potentially switch when we get to 2024 and renewables, the Offshore business becomes a much bigger business for you guys.?

Carolina Dybeck Happe:

Well, let me start by just saying that we do expect to have about a $3 billion business by 2024, and that we will be profitable by 2024. And clearly it's a big area of growth for us. Inflation is an issue here as well, sort of near term, but I'll put that aside a little bit. You said what will happen as this grows? Well, if you think about it, we are now focusing on launching our products like Haliade-X, we continue to invest, but as we grow the volume, we also come down the cost curve, when you learn and make more money through that. So I do think that's an important part. Just getting the experience and the volume will help.

Carolina Dybeck Happe:

When it comes to inflation, I sit in on weekly or biweekly, depending on how many reviews we have, meetings where we go through all the new, big commercial agreements in all of the businesses. And of course, Offshore is one of them. So the term has been very focused on making sure that we have escalation terms in the new contracts. One part of that is focusing on inflation, but I would say overall also focused on price. And that's part of the commentary we have around selectivity and driving pricing.

Joe Ritchie:

Okay, great. And then Carolina, we're going to be bumping up on time, but I did want to ask you one last question on 2023 and the bridge from 2022 EBIT to 2023 EBIT. I know that you have a $10 billion number out there for 2023, but as we've already discussed, 2022 right now is coming in at the lower end of the range. I'm curious, how much quote unquote cushion do you have to achieve the 7 billion plus in free cash flow? If in fact we are at the lower end of the range and maybe the 10 billion isn't achievable in 2023 because of the environment that we're in.

Carolina Dybeck Happe:

So Joe, you will remember, this was maybe also on the “Swinglish” side. We had a 7 billion plus. That was our guide.

Joe Ritchie:

Yeah.

Carolina Dybeck Happe:

I would say if earnings coming a bit lighter, it's going to be less of a plus, but we do have a path to 7 billion of free cash flow. I would say clearly profit is the main driver of the free cash flow, you know sustainable free cash flow, but we also have a couple of other areas with positive cash. You have both contract assets and progress payments where basically in an environment, especially with Aviation coming back, we expect that in a growing environment to do a positive for us on the cash flow. And then we have trade working capital. We don't have time to talk about that as much as I would wish today, but there's a lot of opportunity there.

Carolina Dybeck Happe:

We've talked about inventory and how lean is a key enabler to improve how we work with inventory. So I also see reducing inventory as a multi opportunity to improve free cash flow. And I'll just say that when we talk about improving working capital, of course, a big plus is better free cash flow. But the reality is improving working capital processes means you're running your company better. So yes, you get the cash flow, but you also means that you're serving your customers better, means you're driving growth better, and you're lowering cost better. So there's a win, win, win in that one.

Joe Ritchie:

Great Carolina, thank you so much for spending time with us today. It was always a pleasure to see you.

Carolina Dybeck Happe:

You too. Thank you. Take care.