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Presentation

Julian C.H. Mitchell
Barclays Bank PLC, Research Division

Great. Well, thanks, everyone, for joining. It's my pleasure to have now Larry Culp, Chairman and CEO of General Electric. I'll hand over to Larry for some introductory comments before the Q&A starts. [Operator Instructions]

H. Lawrence Culp
Chairman & CEO

Julian, thank you. Good to be with you, and good morning to the audience who's dialed in. Keen to get to questions, that's obviously always what's, I think, greatest interest. But let me just give you a little bit of an update on what we're seeing at GE here in the middle of the first quarter. You may have seen that we put our annual report out on Friday, couple of weeks after the fourth quarter earnings release. And I would just reiterate, I couldn't be, I think, more proud of the GE team in the way that we persevered through the pandemic and everything else that was waiting for us and it was thrown at us during the course of 2020. Just really pleased. And I think that gives me maybe the most encouragement about what is to come at the company.

You know well, Julian, from a financial perspective, early on, we were hard at both cost reductions and cash actions to make sure we could weather the storm, I think that's what resulted in the positive free cash flow that we were able to register for last year. We were pleased with that. And on top of what we did in 2019, we have a 2-year span here where we have reduced leverage by the tune of $30 billion. So better operations, a better balance sheet and I think that is something that we're encouraged by as we come into 2021.

Obviously, as most people who follow the story, know the first quarter tends to be our softest quarter of the year. Working against a comp where we had at least a couple of months a year ago with normal business, let alone the BioPharma business. So we'll see a little bit of pressure in that regard. I think we're encouraged from a cash perspective, we will, in all likelihood, be negative, but it will be up year-on-year. So it starts the year, not unlike what we were anticipating.

So happy to close the book on 2020. We know as we get into the new year here, the pandemic is still very much in front of us. But again, I think we take some encouragement from the operating reviews that are underway, started last week. In fact, just walked out of a review with the Aviation team here today, Julian, to join you and just a lot of good, I think, examples of where our lean activity is gathering momentum with impact for customers and impact for shareholders.

I mentioned Aviation, clearly, that's the business that we're most focused on here, GECAS as well. Departure is well documented, down nearly half year-on-year. I think in terms of what we can control, the year has started out fundamentally in line shop visits, things of that nature pretty much early on meeting expectations. And again, I would say that we see signs that the industry is preparing for the recovery. We announced -- I think it was just yesterday, a nice order for the LEAP-1A, in conjunction with a big order at Scandinavian. Very pleased to see that. But we're clearly going to watch what happens with COVID-19 as we look, particularly here in the first half, with respect to where the Aviation business and GECAS is going to land.

We look at Healthcare, Healthcare clearly got hit early last year as well, but bounced back nicely. Exceptional cash flow performance in the second half of last year. But I think just as importantly, as we think about '21, 40 NPIs, largely in the back half, that gives us more value to provide customers. Certainly, our Edison platform continues to be a source of significant investment relative to the digital transition within Healthcare. So a lot of good things, I think, happening there.

We were with the Power team last week. As you know, they've come in 1 year early relative to their positive free cash projections. But as we look at what's happening there, again, starting the year, I think,

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pretty much in line with what we had anticipated in terms of outages and gas turbine shipments. It's early, but a lot of good traction there. And again, Julian, I wish I could show a couple of slides from the review last week relative to the examples of how they're using lean to drive real business impact. We'll be with Renewables a little bit later on here as well, a nice finish to last year. The work at both grid and hydro continues. And even there, yesterday, we announced another big order, ironically in Sweden. We call this the Carolina effect with Lux Cara, which will give us the largest onshore wind installation in Europe, excited about that.

So as we think about the setup for 2021, so far, I think, very much in line with our expectations. We're excited being with you and the rest of the group on the 10th of March to really talk about where we're going longer-term in more detail at our outlook meeting. But I think what you'll hear really is how GE is rising to the challenge of building a world that works, what it means for us to be in a position to lead in precision health care. We'll talk more about some of those NPIs, in Edison, for example, where GE is with respect to the energy transition. Clearly, as we think about what we're doing in wind and grid, key enablers, both onshore and offshore, to create sustainable and reliable energy. The grid is going to be a critical technical challenge where we think we can play an important role.

And gas is going to be an important part of the energy mix, we think, for some time. You saw that with an announcement that we made just last week in Colorado Springs, a nice order to help the local utility continue their transition away from coal. And by the same token, we know longer term, our installed base of 80-plus turbines running hydrogen mixed fuel today gives us an opportunity as we think about a hydrogen economy to play a leadership role there as well.

In the future, flight intersects in part with that energy transition, but every new platform that GE has ever come forward with, be it narrow bodies, be it wide bodies, has been largely about energy efficiency. That won't change as we think about the future of flight and everything the industry has pledged to do by 2050.
So a lot going on strategically, again, lean, really driving not only better execution. Julian, I would argue, also driving the cultural transformation at GE at the same time so that those performance improvements really end up being sustainable. So a lot going on. It's early, but we're excited to hopefully see COVID fade here soon. And certainly put our fingerprints on those things well within our control at GE in 2021.

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Question and Answer

Julian C.H. Mitchell
Barclays Bank PLC, Research Division

Okay. Thank you, Larry, for those introductory comments. I suppose following up on one aspect, Industrial free cash flow is always a sort of touchstone for the investment community, at least when looking at GE. Maybe give any extra color if you can on that sort of first quarter commentary that you've made. And I know that you and Carolina, in general, are working to smooth out that quarterly cash lumpiness at GE.

H. Lawrence Culp
Chairman & CEO

Right.

Julian C.H. Mitchell
Barclays Bank PLC, Research Division

So maybe just an update on that. And also, I suppose, when you look at the cash flow guidance for this year, working capital improvement is shouldering a lot of that burden, that uplift. What's the conviction that the working capital comes through?

H. Lawrence Culp
Chairman & CEO

Well, let me take those in order, Julian, and make sure I hit on all those points. I think big picture, we would say we welcome an industrial investors focused on free cash generation, right? That's kind of the way I grew up, Carolina, likewise. And when you hear us talk about the potential for these businesses to generate a high single-digit cash flow margin, I think it's rooted in the quality of the businesses, on a go-forward basis, what we can do from a lean perspective and getting at some of those linearity, cash linearity dynamics that you talked about earlier.

In terms of the first quarter, again, I think it's fundamentally nothing more than what we see typically at the start of a new year, particularly in light of some of those dynamics, be it biopharma. Certainly, aviation, still feeling the effects of COVID. But also a number of positives within our control, given what we've done from a restructuring and cash perspective. So a friendly reminder, nothing more, nothing less.

As we think about the guide for 2021, I know a number of people to -- know of the working capital improvements, I think there's conviction there, right? A good bit of what we have done in the last couple of years is to make sure we're putting more emphasis on every element of working capital in as much a daily management approach as we possibly can, right? We want to move away from those quarter end sprints, those heroics that drive a good bit of that dynamic, not only at the end of the year, but certainly through the course of any 1 quarter. You've seen us bring down the cash needs in any 1 quarter in part because of that work.

When you think about 1 of the core tenets of lean, you're really talking about not only daily management, but also single-piece flow. And to the extent that we can drive that sort of behavior in our operations, we think we're going to be a better cash generator and do it on a more level-loaded basis. Quick example, just coming out of the morning with the Aviation team, talking about how frequently we collect. With a quarter end approach, right, you might be running after receivables at one point in the period. We're getting into a more regular routine where we're, if you will, collecting all the time. And it's those sorts of examples that Carolina and the finance leadership team are driving in concert with the other business leaders, which I think have already shown impact at GE, and we're excited about that being part of how -- when we get back to a growth trajectory, working capital is not a drag for us as we move forward.

Julian C.H. Mitchell
Barclays Bank PLC, Research Division

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And you mentioned Aviation, some reviews this morning. And clearly, the swings in cash flow there have a huge effect on the overall Industrial cash flow. The old peak mentioned free cash was sort of $4 billion to $5 billion in a given year. To get back to that type of number, do you need to see passenger traffic get back to the old peak as well? Or can you get that cash -- a meaningful cash flow rebound in advance of passenger traffic, getting back to 2019?

H. Lawrence Culp
Chairman & CEO

Julian, I think we have a lot of confidence we can get back to 2019 levels, as you say, over $4 billion in free cash in Aviation. There are a host of ways the industry is going to come back and you can model this in a number of different computations, I suspect. But fundamentally, our view is the industry will come back, the commercial side of things. We're going to be in a leadership position as it does and when it does. Again, we talk about having the youngest fleet in the aftermarket, particularly with respect to narrow bodies. We think that positions us very well to help our customers return to flight, bring capacity back online, and that's been good business for GE traditionally. With the refresh of our product lineup, there's no reason that, that can't continue to be true. When you couple that with our military business and these operating improvements that we've talked about you get, in essence, the latter that gives us conviction that aviation can get back to those levels. And in turn, that is an important plank in the bridge to getting to those high single-digit cash margins that I mentioned earlier.

Julian C.H. Mitchell
Barclays Bank PLC, Research Division

And one thing that you've mentioned a couple of times is GE going on to the offense this year. So perhaps sort of help us understand, what should we draw from that comment? Does it mean, for example, no major divestments, GE's had or what it has, it's going to be reinvesting across the board. Maybe just any update on the portfolio thoughts in that context?

H. Lawrence Culp
Chairman & CEO

Sure. Sure. Well, we -- when we talk about playing offense, be it with you and others in the market, let alone internally, we're really talking about, I'd say, at least 2 shifts and evolutionary moves that we're making here. One is being in a position to just talk more about strategy, talk more about commercial, talk more about technology investments, maybe than we have the last couple of years, not that we haven't been hard at it, right? But given what we've been focused on relative to the deleveraging and improving the operational foundation, I was very keen to make sure that we didn't undermine those efforts, thinking about, if you will, the -- often the more enjoyable parts of the job in terms of getting out, driving innovation, spending time with customers, really understanding need and delivering solutions to those needs. So it's a little bit of a shift, a little bit of an evolution, given the progress we have made operationally.

The other dimension, though, is that we want folks to understand, particularly internally, that when we talk about playing offense, it starts with organic, not inorganic growth efforts. There's a time in place for the inorganic side of things. Julian, we did a small acquisition at the end of the year, Prismatic Sensors, gives us some interesting technology in health care. But I don't want the people in the company to think, okay, well, we're going to get back into an active M&A position until we have built on that operational foundation to do a better job out selling what we've got currently, evolving our new product repertoire effectively let alone continuing to invest long-term in market back, customer-driven R&D that is really going to fortify GE's competitive positions around the world.

So we want our words -- we want our deeds rather than our words to do most of our talking, but that's really what you hear when you hear us use that expression.

Julian C.H. Mitchell
Barclays Bank PLC, Research Division

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That makes sense. And maybe on that portfolio point, any updated thoughts or comments around sort of how you assess the role of health care within the industrial side. And also at capital, the asset base still very, very large. It's been sort of derisked over time. But should investors expect, over the medium term, some broader sort of reduction just in the scale of capital?

H. Lawrence Culp
Chairman & CEO

Well, I would say that the answers that we have to both those questions, Julian, aren't fundamentally radically different today than they were 1 month ago, 6 months or even 1 year ago. I think that most people would look at the GE portfolio today, Aviation, Power, Renewables and Healthcare. And if you ask them, which of those 4 industrial businesses is less industrial than the others, people would focus on Healthcare. I think our attitude is, this is a very strong business that we believe can be even stronger.

Operationally, commercially, from an innovation perspective, there's just a lot to do here. And we really do believe we sit at the heart of precision health care. And if COVID has taught us anything, it's the importance of being able to realize that vision, we think we have a critical role to play. So our focus is on making sure that's the strongest business possible.

And over time, performance, as you well know, gives us strategic optionality that we may or may not tap into. We'll see how that plays out. But first things first, we want to strengthen that business. With respect to capital, you're right, we have brought down the size of capital. We have derisked it. It's a bit of a barbell a day between insurance, on one hand, the runoff liability and GECAS, which is clearly, a strong financial services business that has been impacted dramatically by COVID. I think you'll continue to see us look to derisk insurance but those liabilities, at least for the time being, are with us. And all the while, making sure we look to help GECAS navigate the near-term as aviation and the rest of the industry prepares for the eventual recovery. So 2 different dynamics there, and we're going to play those forward as we have of late.

Julian C.H. Mitchell
Barclays Bank PLC, Research Division

Perfect. And then GE's perhaps just the nature of the business, longer cycle and so forth, the turnaround in revenues will happen a little bit later than some of the other companies we talked to today. But once you see that revenue recovery, what level of operating leverage or incremental margin do you think investors should expect?

H. Lawrence Culp
Chairman & CEO

Well, you got to let me save a little bit for the 10th of March, Julian. But I think what we want to do is make sure that our service businesses, where we clearly enjoy better margins, by and large, are positioned for the recovery. It will be most pronounced, of course, in Aviation. I'm not sure we're necessarily expecting a snap back in either Power or Renewables from an aftermarket perspective, simply because they really weren't impacted all that much as we look back on 2020 in its entirety. Healthcare, a little bit more of a shorter cycle business, so they'll feel some of that despite some of the private market pressure. But I'd like to think that we have margins on the upside, operating margin expansion that would be -- let's just call it qualitatively in line with peers, if not better. But we'll take you through a little bit more of the business level detail when we're together in March.

Julian C.H. Mitchell
Barclays Bank PLC, Research Division

Sure. And then on the balance sheet, on the Industrial side, very high gross cash levels today. Debt maturities, fairly small in the medium term. So when you're assessing where GE sits now, it's come out of the worst parts of the COVID downturn, your intra-quarter cash needs are coming down because of better collections and a stronger balance sheet. So maybe help us understand how you're assessing priorities for that gross cash usage more into capital, shrink the pension, something around the dividend or M&A. Maybe just help us understand sort of how that cash pile will start to be put to work.

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H. Lawrence Culp
Chairman & CEO

Right. Well, you're right, Julian. I think on the earnings call, we talked about being in a place where our Industrial cash needs probably are, call it, $13 billion or less. So we know we're in a position today where we've got additional liquidity. But I don't think we're yet ready to kind of call it into this awful global pandemic. So we've, as you well know, taken a rather conservative posture relative to the balance sheet during the pandemic. Again, very keen to see that fade.

And then we have, I think the array of options that you talked about as we continue to work through deleveraging. That continues to be job one in our view. But I think we want to make sure that we just step through the next couple of years in that regard in combination with the recovery and the underlying performance of the business, be it cash, be it EBITDA, so we can deliver on those deleveraging commitments and ultimately free up more capital to back to playing offense. But we don't want anyone to think that we're focused on anything other than that deleveraging here in the short-term once the pressures of the pandemic fade.

Julian C.H. Mitchell
Barclays Bank PLC, Research Division

Perfect. And then on the operating front, I suppose focusing on Power and also Renewables, how have got to that free cash flow milestone earlier than expected, despite some issue -- very good performance there, but still some issues at Power portfolio. So how do you feel about the pace of operating improvement there? And then at Renewables, I think the annual report mentioned improved performance expected this year in grid and hydro. Maybe help us understand sort of where we are in that cleanup process in Power portfolio and then grid and hydro. You've got backlog, how well scrubbed are those projects? And what's that -- how long is that tail of sort of problem projects as we look out?

H. Lawrence Culp
Chairman & CEO

Yes. Well, let's take those in order, Julian. I think we're very pleased with the momentum in the progress at Gas Power, not only in taking out the fixed cost that you mentioned, right? And we're going to be right on with the $2.5 billion here in '21, getting to that free cash -- positive free cash target 1 year early. But everything that goes into that operationally, be it better, more focused underwriting upfront execution through the plant, in the field and everything else relative to not only the restructuring but the execution in the field.

By no means that we optimize the Gas business. I think you'll hear that from Scott on the 10th. But a lot of good progress and again, the team I saw last week, much improved, much sharper than the team I met first time back in the summer of 2018. So that's really what I think we want to do with the Power portfolio and with the Renewables businesses, they might be a little bit behind in terms of pace. But I think they're very much on the bad same path.

Remember, Julian, what we did in Power as we really said, we're not going to run Power as a segment. We reported those segments, but Power is really multiple businesses. Power portfolio, in itself, is a bit of a reporting convention. We've got 3 discrete P&Ls. So we're running the same sort of play there. And if you look at the Power Conversion business, that we were with last week, our nuclear business as well. In both of those instances, the same sort of focus on safety, quality, delivery, better underwriting, monthly rather than quarterly approach is daily management where appropriate, are continuing to drive those sorts of improvements. So I'm encouraged by what we're seeing there.

Steam is the big business in Power portfolio. All of that applies, but what we need to work through there is the effects of the strategic decision to exit the new coal -- the new coal build market, right? So that is a significant restructuring that is really just beginning to gather traction there. That's going to take us through not only this year but into next year. But then you're going to have, what is effectively, a service business in that space and on the nuclear side. So I think we've got line of sight and I want to take a lot of time, but the plays that we're running at grid and hydro are not altogether different. The new leadership team at grid running a little bit of that play in that grid's really 6 business is not one.

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So guess what? We're spending more time really trying to manage the 6 discreetly to make sure we're clear about strategy, opportunities and challenges. And then in that structure, we've just got much better accountability line of sight than we do when you put all of that together, and you're looking at a $3.5 billion reporting convention as opposed to something that is more operational in nature. So that's kind of the nitty gritty of what we're doing in those businesses that I think has worked for us at Gas Power, working for us around the company. So I'm optimistic you're going to see more progress, but again, some of the strategic decisions like the coal exit will take a little while to play out.

Julian C.H. Mitchell
Barclays Bank PLC, Research Division

Understood. Maybe just one quick one from me, Larry, as I know we've only got a minute left, but you have this uplift this year on that industrial free cash flow from last year. Working capital is in there as a tailwind. There will be questions around, is that temporary by nature, when it's a headwind or a tailwind. So as you look out '22, '23, you confident we can still get big step-ups in free cash flow in those out couple of years even if working capital sort of normalizes post this year?

H. Lawrence Culp
Chairman & CEO

Yes. I think a lot of the process improvements that we're putting in, Julian, will give us that lift here, just given the timing of a number of cycles and the like. Going forward, we're really going to need to rely more heavily on revenue growth and the fall-through off that revenue. I think the process improvements will help us, maybe in some years, give us a little bit of working capital contribution and others perhaps just mute the offset that we would otherwise see. So we know when we talk about those high single-digit cash margins, that's ultimately going to be a revenue margin story much more so than it is working capital or CapEx. But to the extent that we can be better operationally, we're going to serve all of those objectives concurrently.

Julian C.H. Mitchell
Barclays Bank PLC, Research Division

Perfect. Well, I think we're out of time, unfortunately. Thank you very much, Larry, for fitting this into your schedule, and good luck with the rest of the investor meetings today.

H. Lawrence Culp
Chairman & CEO

Thanks, Julian. Always good to be with you.

Julian C.H. Mitchell
Barclays Bank PLC, Research Division
Bye-bye.

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