General Electric Company NYSE:GE

Company Conference Presentation

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EXECUTIVES

H. Lawrence Culp
Chairman & CEO

ANALYSTS

Andrew Alec Kaplowitz
Citigroup Inc. Exchange Research

Presentation

Andrew Alec Kaplowitz
Citigroup Inc. Exchange Research

Good morning, everyone. Welcome. My name is Andy Kaplowitz. I am the Head of Global -- of U.S. Industrial Research at Citigroup. Very excited to have you all with us today. We are starting off great here this morning with Chairman and CEO, Larry Culp from GE. I've gotten to know Larry over the last couple of years. Larry's led a new and dynamic GE, already a lot of significant improvement. I know we're going to hear some really good things from Larry today.

Larry, it's been, what, 2.5 years now as Chairman and CEO? Goes by fast, doesn't it? I know you have some opening remarks, so I'm going to turn it over to you.

H. Lawrence Culp
Chairman & CEO

Andy, good morning. It's good to be with you. It's not Miami, but we'll make do today. No, you're right. Time does fly, it will be 2.5 years here at the end of the first quarter. It was October 1, 2018, if you can believe it. It has flown by, but it's been an honor to be on this team, and it's been, frankly, great fun to be doing the work that we do here.

Obviously, it'd be great to get into Q&A, but maybe just a couple of comments at the outset here. We put our annual report out on Friday, which is really maybe the last time we look back and can now turn our attention fully to the future, '21 and beyond. But it was a really good opportunity, I think, to put a bow on what was clearly a challenging year. And frankly, highlight and thank the tremendous efforts put forward by the GE team. I just was in, off from the earliest days, really in Wuhan, when our health care workers were going into hospitals, our service techs to make sure those CT standards, which were really the first-line of defense, were up and operating under, obviously, extreme duress.

But really through the pandemic, couldn't have been more proud of the GE team. We're clearly not out of the pandemic as unfortunately, we all know. But onward, and here we sit in 2021, I think we're well positioned to deal with what may come at us, largely as a function of what we did last year. You know well that once the pandemic hit, we went through a number of fairly quick and dramatic changes at the company, $2 billion of cost actions, a $3 billion of cash actions to make sure we could weather the storm. And I think that, in addition to the lean work that we had been doing, really enabled us to come through certainly in the back half to finish strong. You saw the full year free cash flow number in positive territory, slightly, but still positive. Pleased to see that more importantly, the work that undergirded that is where I think I take my most -- the most of my optimism as we move forward.

Clearly, that also played a part in how we have been deleveraging, while we're not done. We can look back over the last 2 years at $30 billion of debt reduction. That's real money where I come from and I think just bodes well for the future of the company. As we sit here in the first quarter of '21, you heard a little bit about our frame for the year at earnings, looking forward to having everybody with us on the 10th of March to talk through outlook in more detail. I would just remind everybody that our seasonality in the first quarter, which is typically our weakest quarter of the year, still a likely dynamic here this year, particularly given we had 2 good months a year ago before COVID hit. In addition, we had the biopharma business with us in the first quarter last year.

So from a cash perspective, we'll be negative again in the first quarter, but importantly, better than we saw in 2020. As we turn to '21, Andy you and I were talking before we went live here, we're in the midst of our first quarter operating reviews. And so far, it's really been encouraging to see how Lean is seeping in, in a material way deep into the GE operations really around the world. Lots of stories we can get into later, if you'd like.

But maybe if I just quickly go around, we had aviation in yesterday, clearly still depressed, the departure decline year-on-year, well documented. We've got a close eye on Europe, given that's where lockdowns are most pronounced. But there are signs that people are keen to make sure they know where our shop visit capacity is as they prepare to return, maybe not to normal operations later this year, but certainly to put more planes back up in the air. You saw the Scandinavian order, very pleased to see that sign of carriers investing in future fleets, all good from that perspective. But we're not assuming any rapid bounce back in aviation, as you know.

Health care did bounce back nicely in the back half of last year, comes into '21, I think, with that momentum, over 40 NPIs, a good bit of activity with our Edison digital platform. So a good bid happening there. We've got them in today. In fact, we'll start that review when we finish up here. Power was in last week. Just really encouraged by what we've seen in Gas Power. You will recall at earnings, we talked about the work that they've done to bring in a better cash performance in '20, a year ahead of time, a lot of structural cost reductions on top of better underwriting and execution in the field, still a lot of opportunity to improve, and you'll hear, I think, a good bit about that on the 10th.

And on the other side of power, we're going through a number of changes, probably the most important is our exit out of the new coal built space. That will -- in our Steam business, trigger restructuring, that will take us not only through '21 but into '22. So that will be a little bit of a drag on us, but I think it's the right thing to do, and we'll position that business on a far stronger foundation as we move forward. And we saw a real strong finish to the year in Renewables, clearly in onshore wind and offshore wind, in addition to the progress I think we're making with the turnarounds at grid. And at Hydro nice order there that was announced earlier this week with Luxcara will position us to be the provider of the largest onshore wind farm in Europe, interestingly. Let me call that Carolina effect, right? SAS Luxcara, we've got a lot going on in Sweden ironically, as Carolina comes in on her 1-year anniversary.

But when we're together on the 10th, Andy, I hope what you see are a host of examples, not for show, but really how Lean is, again, seeping into the bedrock, driving impact with respect to performance across this company. And ultimately, not only will it impact performance, it will shape our culture. We're excited about what that means, particularly given the work that we have in front of us, be it around the energy transition. I think we know that we have an enviable position with respect to renewables, particularly in on and offshore wind. A lot of conversation here, just the last couple of days, given what's happening in Texas. We know the grid is going to be particularly important. As we work through a different generation mix, we like the opportunity we have to play there, particularly in the digital space. And gas is still going to have an important role to play for decades to come. We have a much improved gas business, well positioned to help in that regard.

And here again, just I think it was last week, we announced an important order in Colorado Springs, coal-to-gas transition part of the local utility making a shift in concert with their net zero agenda. So those are the sorts of opportunities, which I think are just tailor-made for General Electric. We talk a lot about Precision Health, talked about the digital Edison platform earlier. There's just a lot that we can do there. And if COVID has taught us anything, we need to have a more modern, more personalized health care system as we move forward. We like the opportunity that we have to play there.

And the future of flight clearly is where aviation has always been, and that will certainly be, I think, the case going forward. A lot of engine platforms have been developed over time with an eye toward efficiency, cost savings and the like, read that as sustainability going forward. And again, I think as we look to Paris, and other commitments that the industry has made, GE intends to lead in that regard. So when you put those strategic opportunities together with the way we're looking to improve the operating cadences within the businesses, we're excited about the future, have real confidence that we can deliver high single-digit cash margins on this business while building a world that works.
Andy, that's kind of what's on my mind this morning. Let's get into Q&A.

Question and Answer

Andrew Alec Kaplowitz
Citigroup Inc. Exchange Research

Excellent. So Larry, I was going to start a little differently, but you mentioned Lean quite a few times. And the interesting thing is when I talk to companies, a lot of companies mentioned Lean, but at the same time, I look at you as someone who really embraces it and has changed the culture of GE. So maybe we could talk about that a little bit in terms of where you think we are on the Lean journey. When do you think -- I know you'll never declare victory, Larry, but what does victory look like in lean for GE?

H. Lawrence Culp
Chairman & CEO

Yes. Well, Andy, I think a lot of people talk about lean, talk about business systems, and frankly, oftentimes, it's just, if you will, BS as opposed to a business system. And the folks aren't willing to put in the hard work to really drive down, listen to the voice of the customer, root out waste at every instance, and do that on an integrated enterprise-wide basis. When you do that, you really do set yourself up to instill the leadership behaviors we talk a lot about at GE today around humility, around transparency and around focus. The last thing I would submit to you this morning is that we have changed the culture of the company. But I do think working in this way not only drives better results but ultimately, it does embed those values deeply in the organization.

What does victory look like? I'll give you an example of something I saw last week that just did my soul good. We were sitting with the Gas Power team, and we were talking about how we do a better job in the field for our customers when we are performing an outage. And we got into something -- forgive me, it's going to sound very weedy, but the team was talking about how we put parts in a crate and ship them to a job site and how they are then unpacked so that the team in front of the customer can do its work. Historically, the factoring has done what it thought was -- what it thought made sense and the team in the field just may do. I saw this last fall when I visited an outage myself, getting those teams to talk together, they could see that there was a host of opportunities to do better by the team in the field, who, in turn, would serve the customer better opportunities to root out a lot of waste, just in the form of the packaging that we use and the way we put the parts in the crate in the factory so that, that is easily accessed in the field.

We need a million of those examples. But when we're doing that detailed work at Gemba, with an eye towards serving the customer, rooting out waste and doing that to link functions which, in many instances, historically have defined success in their own silos rather than on an enterprise-wide basis with a customer in mind, that tells me that we're moving in the right direction.

Andrew Alec Kaplowitz
Citigroup Inc. Exchange Research

Very helpful. So one of the things, Larry, it's interesting, you did speak yesterday. I will acknowledge that. So when you spoke to you -- my peer asked you about sort of how you play offense, which I want to ask you, and I think I can relate it to what we're talking about here, right? Because you talked about selling and innovation and R&D. And so it's funny because you think of GE is a very innovative R&D-focused company, but you've been focused on paying down debt and the cost side and all that kind of stuff. So maybe you could elaborate on some of those comments yesterday about what you can do with innovation, what you can do with selling and what that means for revenue growth and margins going forward?

H. Lawrence Culp
Chairman & CEO

Right. Well, Andy, I would say that you can go back to Edison, and this is a company that has always been about technology. That hasn't stopped, right? Even during COVID, even during the last couple of years as we've been working on deleveraging and going through other change for the NPIs at health care. The introduction of the Haliade-X and now Cypress, new platforms within renewables. What we're doing with the HA platform in gas, right, relative to not only world-class efficiency, but running hydrogen, let alone the refresh in aviation with LEAP and the [9F], the catalyst. So there's a lot going on in that regard.

I think when you hear us talk about playing offense, what we really want to do is change a little bit of a conversation internally but also remind people of what's always made this company great and where we're going to serve and win in the future. A little hard to do going through the changes that we've -- or the challenges we've had the last couple of years, right? So we wanted to be crystal clear with everybody, we need to deleverage. And with $30 billion of progress the last couple of years, we're on our way, but we're not done. Likewise, a lot of what we're trying to do from a lean perspective is rooted in driving day in, day out safety, quality, delivery, cost and cash improvements. That's the foundation, right? If all of that's not right, the day-to-day, the balance sheet, what we want to do in terms of being out with customers with today's offerings, bringing on new products this year, investing in breakthrough technologies that drive Haliade, that drive LEAP in the future, it's a shaky foundation.

So I think what you've seen us do is fortify the foundation, work still to do, so we can not only talk a bit more credibly about some of those great investments and those breakthroughs. But frankly, do more of it. And that's ultimately what we want to do, all the while making sure that everyone understands that when we say offense, it's first and foremost about organic, right? Rather than inorganic. Thrilled to be in a position to put a little bit of money to work in health care late last year with the Prismatic Sensors acquisition, fortifies the health care technology portfolio. I know a number of people inside the company at least, think that when we say playing offense, we're going to go do a lot of lateral, big M&A. That's not the agenda, right? Organic first, and then we'll do some bolt-ons when we can, where it makes sense.

Andrew Alec Kaplowitz
Citigroup Inc. Exchange Research

And we know your guidance for this year, the low single-digit growth. But like when you step back, Larry, and when you are playing offense, can this company deliver consistent mid-single-digit growth?

H. Lawrence Culp
Chairman & CEO

Well, Andy, we're going to just take it 1 step at a time. We would clearly want to be an above-average grower, right? We need to be mindful that with over half the revenue base in services, services sometimes are not going to necessarily grow at an accelerated rate, but there's a lot of opportunity here. I think the guidance for '21 is really rooted in the fact that we know while we have momentum and all those new products that I mentioned, better execution. We also still have the overhang of a pandemic, right? And that creates near term pressure, some uncertainty. But given what we know and don't, we think we can be in that low single-digit range. In '21, rest assured, aspiring to do better. But not only growth for growth sake, right? But quality growth, meaning margins and cash that go along with that.

Andrew Alec Kaplowitz
Citigroup Inc. Exchange Research

Got it. So you mentioned services, Larry. Obviously, I think the number is 80% of the backlog is geared towards Services at GE. And when I look at Q4, Industrial Services were still down pretty significantly in revenue. Power has had a bit of a harder time. So like when you step back, is 2021 the year -- I mean, I understand the pandemics impacting aviation in particular. But is 2021 the year that you can sort of turn around Services in general? So as you said, Services becomes relatively consistent even if it's not a fast grower, a consistent grower over time. And how do you view that?

H. Lawrence Culp
Chairman & CEO

Yes. Well, Andy, I probably wouldn't talk about our Services portfolio broadly and use the word turnaround, frankly. Aviation is the service business that matters most. And as we've seen the airlines conserve cash, taking planes out of service, they've been very clever about green time and the like. We've certainly seen that impact. The industry, let alone the Aviation Service business. We do think, though, that when we get to the other side of the pandemic vaccinations and the like, lockdowns are being lifted. Those planes are going to fly again. And we're going to be well positioned with the youngest narrow-body fleet in the world, right? So as people get back in the air, that's going to be a good thing for our business. We've got a new leader in our Services portfolio, [Russell Stokes]. A lot of change going on there to make sure we have a cost structure for today and capacity for tomorrow, not only to complete those shop business, but again, to delight the customer and to have that be good business for the GE shareholder.

We don't have as much service business in renewables and health care as we do in Aviation and in Power. But those are good businesses that we're simply trying to grow but again, I wouldn't use the word turnaround. In Power, particularly in Gas Power, that's where we've been challenged. And the good news is that the CSA book has been solid. Utilization has been relatively consistent the last couple of years, where we've really had pressure. It's been in upgrades, which we thought was going to turn in '20, didn't because of the COVID induced pressure on oil prices and in turn, what that meant to middle eastern budgets. And frankly, our Transactional business has been maybe the turnaround that's been toughest to move. But it's examples like the one I showed -- shared earlier, weedy, forgive me. But it's the day-to-day improvements in the field around the world that are going to position us to grow that transactional book in '21. I think we're going to do that.

On the other side of Power, we have fundamentally, our Steam business with a sizable service portfolio. But with all of the dislocation in the coal space, what we're doing in Services has really been, I think, swamped by that. So we're going to go deal with that strategic decision to exit, restructuring to follow, I think that will set us up to have a more focused service play in that business. And in turn, we should drive better results. So maybe a little bit of a -- clearly a turnaround in Power and Services, but not in the other 3, in my view.

Andrew Alec Kaplowitz
Citigroup Inc. Exchange Research

Larry, I guess I'd be remiss, given the weather in the U.S. these days, like I look at Texas, and I feel like GE gas turbines have been highly utilized in the U.S. if I look at 2020, yet services weren't that great. I mean, do you think we just got behind the ball and need to sort of ramp up services in '21? I mean that's what sort of befuddled me, right? Is that the market looks like it wants to turn, but it hasn't.

H. Lawrence Culp
Chairman & CEO

Well, but keep in mind, the market is multidimensional. And in terms of utilization, that's been relatively stable. I mean we know we've got an energy transition going on. It's highly unlikely to bring it back to the glory days in gas, either in terms of new turbine production. We think that 25, 30 gigawatts trend line is going to hold. It will be up some years, down others, but that, in the near-term here is probably a good basis where we saw pressure within upgrades, more ex-U.S. than not. And in the transactional business, where we don't have a long-term customer commitment, we're out there fighting for every bit of business that we can. And we just haven't been at our best the last couple of years, improvements to come.

I think what I take from what's happening down in Texas and the discussions around ERCOT is that we really do have a trilemma, if you will, with respect to the energy transition. A lot of talk here early in the year around climate, Paris sustainability. All good. We have a role to play. We like that, right? Just now with Bill Gates being on book tour. He's got a new book out, talking a lot about climate, but also climate relative to economic development. So we have that element of the challenge and I think what's happening in Texas just speaks to reliability and how we can't take reliability for granted. So you put those 3 factors on the table, this is a complicated problem to solve, but again, at GE, we think our position in renewables, our position in grid, our position in gas, give us an opportunity to talk to stakeholders around the world, customers as well and be part of that solution.

Andrew Alec Kaplowitz
Citigroup Inc. Exchange Research

I think I want to ask you about energy transition because you're sort of alluding to it and sort of GE's positioning and energy transition as we move forward. A lot of talk about hydrogen, obviously, it's still early. Maybe sort of remind us how you're positioning the company for the future. Obviously, you've got the Haliade-X, which is really interesting stuff. So as you look over the next sort of 3 to 5 years, what does energy transition look like for GE?

H. Lawrence Culp
Chairman & CEO

Well, I think, Andy, more than anything, what we're trying to do, business by business by business, but also across those businesses, is to be really clear, not only with ourselves strategically, but with customers, with regulators, legislators, NGOs, that GE is a force for good, right? The challenge of climate, Paris, however you want to frame it, is a problem and an opportunity that we want to dive into headlong. Again, I think whether it be the innovation that we bring in onshore, offshore even some of the smaller things that we do like solar inverters, we're going to make sure people understand that we can lead and we are leading in renewables. We're #1 here for a second year in a row in the U.S. in onshore wind.

Renewables are great, but every operator that you talk to is concerned about intermittency, and that really speaks to the grid. So we have a grid business that we need to turn around. No questions asked. So we haven't been pounding the table relative to the role that grid can play. But when you look at some of the components of our grid business, be it our digital grid product line, grid automation, we've got some nice piece of the business in aggregate over $1 billion that is growing nice margins, where it's not only a good business, but we're part of that renewables solution. All the while, I think we want to make sure that gas plays its role, right? Gas in the eyes of some is not part of the solution, but it's very hard to make the math work. As you think about the next 10 years, let alone the next 30 years, without gas, particularly in certain parts of the world, playing an important role, it gets back to that trilemma, right?

Sustainability, reliability and economic development, the only way the world solves this is by solving for all three. I buy into the Bill Gates assertion that we need innovation here in a host of areas. And again, I think that's tailor-made for what GE has done for over 100 years.

Andrew Alec Kaplowitz
Citigroup Inc. Exchange Research

To your point, Larry, do you think, ultimately, the energy transition accelerates your growth? I mean I know, obviously, some people are worried about the traditional gas turbine business. But do you think ultimately, it accelerates your growth?

H. Lawrence Culp
Chairman & CEO

Well, Andy, I think you're right. There are going to be some puts and takes, there's no question. But I do think that given the emphasis that we're going to see around the world over the next decade, combined with where we're -- how we're trying to position the company strategically and the way we are operating day in, day out, it should be an opportunity for us to deliver better results going forward with those businesses en masse.

Andrew Alec Kaplowitz
Citigroup Inc. Exchange Research

So I wanted to ask you, you mentioned grid and some of these other turnarounds. So I look at grid and hydro, we talked a little bit about steam coal. If I put -- I did some quick math, right? So if I put those smaller businesses together, and then I look at even just onshore wind, which I know over time, you can get the profitability up, you didn't get over $20 billion of revenue, that's still pretty low margin and pretty low cash flow, right? And so without -- I'm sure you don't want to give me the exact numbers, but as I go over the next few years, like do I think a lot of these businesses can get close to that sort of goal of high single-digit percentage of sales in cash flow? Is that possible? Is that the goal for these sort of businesses?

H. Lawrence Culp
Chairman & CEO

Well, Andy, a couple of points there. I would say, again, not to appear to be overly focused on parsing words when we started to talk about the turnarounds within renewables. We did so to, frankly, enhance transparency, because we know the segment at large has not been a stellar performer on an absolute basis. But I think people had taken from that, that every business in the segment is challenged. We know we can do a better job internationally in onshore wind. We know offshore wind is an investment today, a multibillion-dollar business, [mid-decade] with good margins.

But what we have been tasked with at grid and hydro, and that's just over what, $4 billion of revenue, our 2D turnarounds, different dynamics, a number of long-term project commitments that we need to see through, and that doesn't happen in months in a number of instances, it takes years. But whether you look at those businesses, some other parts of the Power segment that we call the Power portfolio, we're just trying to get better. Not every one of them may be at that high single-digit cash margin level in time, but they can make their contributions, frankly, to GE getting there by losing less money, breaking even and getting into a low to mid single-digit range. And I'm not suggesting none of them can't, but what we're trying to do is just drive that improved performance and calibrate just where the finish line might be.

And a lot of it is rooted, frankly, what we've done in Gas Power, right? We took that Power segment, broken into its component pieces, took out that headquarters level -- layer and really try to manage every business from the bottom up. It's exactly what we're doing in Renewables. You take grid, they're running at play within grid. You've got 6 discrete P&Ls. Not all of them are created equally, but we've got much better accountability, line of sight on operations in those businesses. So some are going to double down on, others are in restructuring mode. But to get to the -- I think the heart of your question, all of them have an opportunity to deliver better performance. I think we see early signs of that, far from finished. We're a little further ahead in Gas Power than we are, say Grid, but I'm optimistic that a lot of what ails us is within our control.

Andrew Alec Kaplowitz
Citigroup Inc. Exchange Research

Very helpful. So I think, Larry, yesterday in your conversation, when you're talking about working capital that -- because a lot of the questions that I get are the working capital improvements that you had in 2020, are they sustainable? And it feels like -- I mean, of course, they're sustainable in the sense that, that's exactly what you're trying to do with lean moving forward. So maybe, like, we know what the guidance is for this year, like I think numbers that I have are about $3.5 billion of cash improvement expected this year at the midpoint and maybe a couple of billion of that is working capital. And so sort of when you break that down, where is the biggest opportunity longer-term when it comes down to? Because I remember talking to the previous regime, Mason told me about past due receivables. I'm sure some of that still exists, but like where do you think the low-hanging fruit still is over the next couple of years on the working capital side?

H. Lawrence Culp
Chairman & CEO

Yes. Well, I think the way, Carolina and I have framed this, is that it's all in bounds, right? And we know next year is going to see maybe a larger working capital contribution in the walk than some might have anticipated. But it's important to remember that part of that will be in receivables where if you just assume factoring stays at current penetration levels, we don't have that self-induced headwind we've had the last couple of years, right? So that's a helpful element in '21.

But just take receivables. You mentioned one of my pet peeves, past dues. Where I grew up, we focused on DSO. And we focus on DSO because that's an enterprise-wide way of looking at receivables. If all you do is focus on collecting past dues, you've assumed 60, 90, 120-day terms and maybe some other things in there as well is being okay. So puts the entire business on alert that we want to drive down those cycles. We certainly need to collect our past dues. But what if those past dues come -- go past at day 60 rather than day 120 right? It's less painful. So we're doing that.

A lot of that is rooted, frankly, in daily management, another key lean tenet. You'll hear Carolina talk about lean. She and the finance leaders are really keen to make sure we're not out there collecting once or twice a quarter, but where we can, we're collecting every day. And that same approach applies to payables and as you talked about inventory, and you're spot on, a lot of what we're trying to do is not muscle a supplier or hold our breath at quarter end, but really lay in the process, be it in the new build side, be it in services, to make sure we have real pull systems, driven first and foremost by on-time delivery targets. And when we can do that, as we've seen, we can bring on -- we can bring inventory down while bringing on-time delivery up.

Good discussion yesterday with the Aviation team. Up in our plant here just north of Boston in Linn, where they're going through some early implementation around [through-pull] we don't have adequate on-time delivery there. That's part of the reason our Military business lagged a little bit in the fourth quarter. More importantly, we've got a customer that deserves better, particularly that military customer that we have in Linn. We think we can do this in a process-oriented way that drives sustained contributions. Long term, our cash generation will be a function of revenue growth and margin expansion. We just don't want working capital to soak all of that up. So it will be a little bit of a different mix in '21. But I think going forward, what I hope you see from GE is continued progress in managing working capital and frankly, other elements of free cash flow so that we're a better cash generator consistently over time.

Andrew Alec Kaplowitz
Citigroup Inc. Exchange Research

Great. So I know we all maybe [indiscernible] So forgive me, I've got a question over the e-mail. So I'm just going to read it. It's actually a follow-up to a question that I just asked, the one before. So talking about some of these, I will not use the word turnaround, some of these businesses that you're working on, if those businesses do not achieve the sort of goals that you set for the whole company in terms of the high single-digit free cash flow, high single-digit as a percent of sales free cash flow. So they'd be part of GE midterm, how are you assessing the returns in the business in terms of pertaining to the overall GE portfolio?

H. Lawrence Culp
Chairman & CEO

Well, I've had a view or a philosophy for a long time that when you have a portfolio of different businesses as we do at GE, management and the Board need to constantly evaluate the role of every business in the portfolio, right? No business necessarily has a permanent home. We all have to earn our keep, be it business, frankly, all of us as individuals. But it's a complicated calculus because we're looking strategically at opportunities down the road. We're looking at operating capability versus operating potential, certainly, returns, growth, margin, cash potential, a host of things that play into those portfolio calls. So when we come to those decisions, we'll share them with you. But I think what we're focused on, Andy, today, job 1 is continuing to weather the pandemic, serve our customers, take care of our team, and really drive this lean transformation and scale that we're excited about.

Andrew Alec Kaplowitz
Citigroup Inc. Exchange Research

So I'm very conflicted, I'm not asking you a single question about aviation, which is a little disconcerting. But I -- in the last comments, I actually want to ask you -- because I mean, aviation is just when are we going to recover? And I don't know if there's -- you're doing a good job there. But let me ask you about health care, actually, in the sense that there's a material improvement in margin there over the last several quarters. And the business has been more stable, obviously. It does, I would assume, have some positive mix from some of the tailwinds around COVID. But it's hard not to notice that margins started to catch up to peers. So do you think ultimately that health care has closed the gap significantly? And that as you look forward, you should have more higher teens, 20% margins in that kind of business? Is that sort of what the entitlement is there?

H. Lawrence Culp
Chairman & CEO

Well, you're going to think I'm a member of the word police. I've tried to encourage folks around here not to use the word entitlement because it suggests things I don't think are any part of good business vocabulary, right? We've got to earn every last order, every last dollar that is out there. I'm really pleased, I think, with what we saw in health care, particularly in the back half. If you talk to Kieran Murphy, the CEO of that business, Kieran would say he was most pleased not with the results, but the way we deliver those results. Again, much like we've talked about power and renewables, what we're doing in health care, it's really breaking down the business into its discrete P&LS. And by doing so, Kieran thought he saw a better collaboration within the P&Ls across the functions in the back half of last year than he's seen in some time. I think that's part of what you saw.

Clearly, we had some COVID benefit not only here with some well-publicized orders, ventilators and patient monitors, but also in China. And that continues. The cash cycles tended to be a little bit more compressed. That was helpful. But a lot of it was just, frankly, better operations. The negative mix that I would just underscore is our PDx business, right? Largely a function of procedures, relatively flattish of late. We think there's pent-up demand that will help fuel that business to better growth later in '21. So opportunity there as we get past the pandemic, I think the real balance here, Andy, is not necessarily to overweight margins. But frankly, to find the right balance between low and mid single-digit growth. And we've talked about, I think, 25 to 75 basis points of op margin expansion, because this is a business that ought to be a better organic grower over time. There's just too much to do. We're too well positioned otherwise. If you were to sit in with us today, I think you'd see us spend a lot more time on how we drive organic growth then push for more margin expansion. So that balance will be one we manage, we toggle over time. But I'm optimistic that's a business that can create real value for us over time.

Andrew Alec Kaplowitz
Citigroup Inc. Exchange Research

Well, I wish we had another 40 minutes, Larry, but alas, we're out of time. So look, we very much appreciate your time. It's been awesome, and stay well and healthy. And we'll talk to you soon.

H. Lawrence Culp
Chairman & CEO

Andy, thanks for the time. Good to be with you.

Andrew Alec Kaplowitz
Citigroup Inc. Exchange Research
Thank you.