Brendan Luecke:
Good morning. My name is Brendan Luecke and I'll be covering the Multi-Industry sector for Bernstein. I'm very excited to welcome all of you to today's fireside chat with General Electric, thank you for joining us. Before we get started, I want to touch base on a few quick housekeeping items. Our aim is to make this session as interactive as possible. Please use the Pigeonhole link on the bottom of your screen to submit questions. You can also press the triangle button, then the live Q&A tab to upload questions. We'll work popular topics into the conversation. With that, it's my great pleasure to introduce Larry Culp, Chairman and CEO at General Electric. Prior to joining GE in 2018, Larry served as CEO at Danaher Corporation for over a decade. Larry, it's an absolute pleasure to have you back to the SDC this year. I understand you have prepared some opening remarks and we'll hand it out here.

Larry Culp:
Brendan, good morning and thanks for joining us. We do have a few slides to walk through, but as you said, I think this conference is often the highlight of our year on the IR trail, largely because of the interactions we have with investors. So, we'll get to Q&A here in a few moments. But, it's hard to believe that it has been a year since we did this conference virtually. Obviously at that point, we had prepared to come and update investors on the transformation of GE, but given the news of the day, it was also important for us to talk about COVID-19.

Clearly none of us could have foreseen what the next 12 months would bring us. We certainly felt COVID across our operations, nowhere more so than at aviation. We'll talk about that more in a moment. But, I think what we did in the wake of COVID was take decisive action, which served to accelerate the transformation of GE, and I want to give investors an update on that transformation today. Clearly our news for March relative to our combination of our GE CAS, our aircraft leasing business with AerCap also serves to accelerate that transformation of GE toward a more focused, a simpler, stronger industrial company.

I think as we look at GE today, the GE that goes forward, you really have four outstanding franchises what you see on the slide here. These are the businesses that define GE as we think about the value creation opportunity in front of us. I think a lot of people think of GE as a large ticket cap goods company, but it's important to know, as you look across these four businesses, that services represent nearly half of our revenue and certainly more than half of our earnings and cashflow streams. So there's a lot to work with here: making sure that the planes are in the air, that healthcare is being delivered as efficiently as possible, let alone helping the world navigate the energy transition. And, that's what we do every day in 170 countries around the world. The team is hard at it as we speak and I'm excited to be here to give everybody that update on where we are.

If we go to the next page, Brendan, our purpose at GE is simply put building a world that works, and that really applies across the GE portfolio today. We think about the future of flight, that's what GE aviation has done for decades. Clearly we have been the supplier of choice because of the reliability and the
efficiency that our innovations bring to our flying customers. That continues today certainly with the LEAP. We see the LEAP cutting emissions by 15%, being part of that track record of innovation. And as the industry wrestles with its commitment to halve carbon emissions by 2050, we think we're going to be well positioned to do that not only with LEAP, but technologies to come be that sustainable aviation fuels, hybrids, and the like. Precision healthcare is all about personalized medicine delivered in an integrated and efficient way, and that's really what we do both in our Healthcare Systems and our Pharmaceutical Diagnostics businesses. There's a lot to do there both organically and inorganically, and we're excited about that. I'll get into that in more depth here in a moment. And then finally, with respect to the energy transition, you would expect GE, a company that generates over a third of the world's energy, to be smack in the middle of that. That's where our customers want us and we're happy to serve. Be it with respect to wind, both Onshore and Offshore.

Onshore we've got a leadership position here in the US two years running. On Offshore, clearly an emerging opportunity for us, both in Europe and in the US, but also as we think about the role of gas in the energy transition. We know our gas position compliments well, both wind and solar. And certainly, as we move forward, the challenges with the grid will be opportunities for us at GE in our Grid business. And as we think about the energy transition, I think it's important to remember that it's not only about sustainability, the so-called trilemma: sustainability, reliability, and affordability. Particularly with a billion people around the world still without reliable power is an opportunity and a mission that we're quite keen to see through at GE. If I go to the next page and speak about the transformation toward that more focused, that simpler, that stronger high-tech industrial. I think if we look back over the last several years, a lot of progress in that regard, but the AerCap transaction that I mentioned a moment ago really allows us to put all of our energies, let alone our money, on creating full value from these four leadership franchises. We announced that deal in March. We're excited to see the AerCap shareholders approve the deal recently. We know the DOJ has concluded its review here in the US so closing later this year, early next year. But, that positions us to take down over $70 billion a debt over the last several years. So the de-leveraging very much on track in that regard. And again, that allows us to put the balance sheet in good order so we can really pivot and put all our energies in running these businesses better, and that's where lean and decentralization fit in. And we'll talk more about the efforts in that regard, but I couldn't be more pleased particularly here on the heels of our second quarter operating reviews. We've been with all the businesses, Brendan, in the last five weeks to see how the team is really accelerating the pace of implementation around lean and really embracing the more decentralized mode of operation here.

And then finally, what all of that sets us up to do is simply play more offense. And, I know a lot of people think that means M&A. At GE today, first and foremost that's about organic growth and better at how we market and sell, how we develop new products, let alone the technologies of tomorrow. And as we have more time and more capital to do that, that clearly sets us up to build off that stronger foundation and over time compliment that with inorganic investments and all of that sets up I think enhanced strategic optionality is we think about GE longer term.

So, that's really the heart of the transformation. I talked about lean, I know you are a student of lean from your time at Ford. You worked with one of the best CEOs that I know, Jim Lico there. Lean at GE today is all about the customer and how do we institutionalize continuous improvement. How do we improve our problem solving capabilities to serve the customer. To improve safety, quality, delivery, cost and cash with an eye toward building a more sustainable future. And again, these second quarter operating reviews, Brendan, have really been a big motivator for us as we've gotten out and just seeing so many examples of lean continuing to build momentum.

One out of aviation, I'll just quickly highlight our Strother Aviation services repair facility out in Kansas. Two sites, seven miles away; not necessarily our best performers. Team goes in there and says, "There's
an opportunity.” The next thing you know, there are over 90 dumpsters out in the parking lot with a lot of waste being removed. Two facilities being combined into one. More importantly for the CF34 that we service there. Inventory cut in half, output increased, and I think the team understands the flywheel is turning. Lots of examples across the company, but that's really the key. The flywheel is moving here. It's been a couple of years, and now we want to make sure we accelerate that for impact, not only for customers, but ultimately investors as well.

Decentralization goes hand in hand with lean again. A model I know you know, well, Brendan. I think it’s applicable here at GE because a lot of what I saw two and a half years ago when I joined was an orientation toward the segments at times more so than the business units. So, we reported four segments, no change there. But, where we’re furthest along is in Power. We've broken down that segment into [inaudible] business units and that’s the way we manage, the bottoms up. Still report on a consolidated basis, but we look at those businesses month in, month out on their own bottoms. I think that's a real reason why you've seen the improvement that we have seen at Gas Power, where they came in a year early relative to their positive cash flow targets.

And as we have recently promoted Scott Strazik, the CEO of Gas Power to be the CEO of all of GE power, that's the operating model I know Scott and his team understand. We're not going back to a consolidated operating model. We're really going to run these four businesses where they can work together great, but that won't be the default position. And we’re seeing that really across the organization. Again, we've been out with everybody and we had two excellent operating reviews in Renewables last week where our Onshore wind and our Grid businesses running that same play, not only as we manage Renewables in that fashion, but as they manage their own businesses in similar fashion. So, you should look across nearly 30 units, business units at GE. Hopefully that gives you a little bit of a color as to how we're driving a different approach and ultimately better results.

Let's go to the next slide. We can talk about these businesses, I'll be brief Brendan. Clearly starting with Aviation. This is where the action is for us the next couple of years, as we prepare for that return to flight post-COVID. But, as I think most people know we've got a global leadership position in aircraft engines, both commercial and Military. 37,000 commercial engines out there in our installed base. Over 60% haven't seen their second shop visit. So, there's a lot of opportunity here as these planes are put back in the air. Certainly, we want to continue to innovate again from an efficiency, from a reliability sustainability perspective, so that we continue to have a high win rates that we do with our OEM and our carrier customers. Our Military business is a business we're going to manage better going forward. But, with 26,000 military engines, opportunities, both in fixed and RotaCraft, that's a business that's going to be a part of the long-term growth story and the value creation story in Aviation and at GE.

Clearly in terms of current trends, I think your audience is probably well aware that we’re looking at departures off a ’19 base that are down 37%, 38% as of this morning. Reading the overnights, I was very encouraged by the CEO comments at this conference from some of our important customers, relative to what they're saying, both over the course of the Memorial Day weekend here in the US and more broadly. Clearly China and the US are back, Europe, South America, Southeast Asia lagging, but we know as vaccines role we’ll see lockdowns diminish. And that will be good both for, I think, domestic and ultimately international travel.

Our views relative to recovery don't change here. We think narrow bodies are back in ’23, wide bodies in ’24. I think that's more or less a consensus view. What we want to do is make sure we're ready for the snapback. Not only in [inaudible] but ultimately the production levels over the next several years. There's a lot going on. I think in the short term though, we're still working through COVID. Here in the second quarter I'd expect our shop visits to more or less be in line sequentially with what we saw in the first quarter. We're working through some contract margin reviews as well. I think sequentially, we'll see a step down in margins in the second quarter, but no change relative to a full year outlook here. That's
really predicated on the second half recovery, which I think we see taking root relative to our ability to grow low single digits, in terms of organic growth, put together, low double digit margins, and an improved cash position.

If I move quickly to Healthcare. Brendan, honestly I think this is a bit of an underappreciated gem within the GE portfolio today. Clearly, a leadership position in the heart of precision health, primarily through our imaging franchises. But I think also increasingly with our Pharmaceutical Diagnostics offering, and how the two compliment, particularly as we think about some of the oncology applications that some of our recent acquisitions helped us exploit. We touch over a billion patients a year at GE Healthcare. When you look at how the over 4 million strong installed base of our MR, our CT, or our ultrasound scanners and our patient monitors and the like are used across the global healthcare scene. Now what is that? 15% of worldwide population, it's a big number, but clearly plenty of opportunities for us to continue to grow here, and grow we want to do to serve the customers. We know this business is more valuable to investors and we can get that low-single-digit growth rate up sustainably into the mid-single-digit range. There's a lot of good commercial execution improvements on the table. Clearly, you see us investing aggressively in innovation over 40 NPIs last year. Certainly digital is going to be a bigger part of what we do here. The NPIs have really taken off, I think quite nicely, thus far this year. One example, our Vscan Air ultrasound product is really a nice, portable, lower price point unit that allows whole body scans. I actually had a former student of mine. If you can believe it, who's ironically a doctor, write me and said, this has really changed the way that they are delivering care in his unit. We've got all sorts of indicators that the innovations are having the desired impact. And again, in turn that sets us up on the back of what has been three outstanding quarters, with respect to cash generation to tweak that growth rate up, continue to target 25 to 75 basis points of op margin expansion with high cash conversion.

So a good story there, but let's talk about the energy transition. We'll start first with Renewables. Again, this is a business where we know we have a critical role to play. Both in bringing down the costs of renewable energy, and also working to make sure the renewable penetration doesn't have negative knock-on impacts given the technical challenges there. We think we're well positioned to do that. Onshore Wind, leadership position here in North America two years running. We've recently changed the approach outside of the US to drive better selectivity, and better cost and margin performance. Offshore Wind, big opportunity for us here. You've seen the estimates in excess of 20% market growth encouraged by the Biden moves, are Haliade-X has been approved both for the 12- and 13-megawatt applications. We're working on the 14-megawatt opportunity. But, we really think this is a $3 billion business for us by 2023, one that can be a margin and a cash contributor. Again, with respect to Grid, this is I think, an underappreciated dynamic relative to the energy transition. Yes, the physical grid needs to be upgraded. Yes, there's an under penetration of digital capabilities in the management of the grid today, but renewables don't come online naturally and easily. And particular, as we approach 40% renewables penetration, the grid needs to be more actively managed and we think we've got capabilities to be part of that solution. You put that together, there's a lot of execution required to improve the financial performance of this business, but we do think we're in a position to drive better growth here than some expect, but ultimately it's going to be about the margin and cash performance at Renewables.

Then Brendan, if we just quickly wrap on the businesses at Power, again 4 businesses. Gas Power represents the better part of three quarters of the segment and that is where we're furthest along. You would expect again, given the nature of what we started with a few years back working with the world's largest installed base of gas turbines, really a twofold story. Again, more selectivity, better re-underwriting relative to new units, but also making sure that we are managing the day in, day out aspects of our service business more effectively. We were encouraged by the start to the year here in the second quarter, I think outages have played out more or less as we would have expected, but that's
a different dynamic for us, where we just need to execute for our customers better. We think that will enable us to win more business, and drive a modest amount of better growth, while we compliment that with smarter selectivity in new units. Won't spend a lot of time on the other businesses just to remind folks that our Steam business is going through a fairly dramatic reset in so much as we're exiting the new build coal space, reconfiguring the European footprint. We have a number of runoff expenses in that business, so we have a down year in Steam this year. Next year will be a bit of a transition, but I think when we get to the other side we've got a more pure play service business, a bit more in line with our Nuclear business which is 90% services today. I think all in all, really pleased with Gas. Another year of improvement in the making here given what we see. And I think in time you'll see the Power segment contributing, call it a billion or two of free cash to the overall GE equation. So Brendan, from the earliest days in my time, at least with the company, we've talked about an aspiration of being a better, more sustainable cash generator. We know that's been the knock, maybe the question on GE for some time that aspiration holds today. A lot of investors will ask, well, why not raise it? Well, I appreciate the confidence board of that question, but we're not going to raise it until we do it. I think for us, the simple math here to get to a high-single-digit free cash flow margin is getting back to revenues in line with where we were pre-COVID, call it $85 billion to $90 billion and take the middle of that, that high-single-digit range at 8%, you get to $7 billion. To get to $7 billion a lot of things have to happen and we can break that down by business maybe a little bit later, but simply put, we need to be a good organic grower. We don't necessarily need to knock the ball out of the park, but we want to be consistent and we want that growth to be good growth, good margins, good margin expansion, and good cash conversion. We think we're going to be able to compliment that with less restructuring over time and in turn less legal, less pension obligations as we work down some of those legacy issues. Our lean efforts certainly put us in a position to require less cash and working capital, less cash in CapEx as we get on that track. It's a simple equation. It's one I know you're familiar with. We need to execute on it. Again, I think we see a lot of momentum, but that is indeed the case. Just one quick example for me that gets me excited is there's a little bit of noise in the system relative to our policy decision in the wake of the AerCap announcement to stop factoring. We can work through the details there, but operationally, I think what matters most is we're no longer going to hear about the “factoring backstop”, the “factoring parachute.” Those are quotes from some of the May operating reviews. What you see is the organization rapidly tilting toward better daily management of cash, particularly with respect to receivables. That may sound particularly mundane for folks at a distance. But that's the daily management trick here at GE, is going to help I think change not only how we deliver better cash for investors, but frankly how we take better care of our customers on a day in, day out basis.

If we just go to the last slide here, I hope folks who haven't been paying attention to the GE story, come away a little bit better informed, maybe a little bit more excited. I suspect there's a little bit of news here for those that have been along with us for the last couple of years. But again, I think the transformation is underway. We know what we want to do. It is a more focused, it is a simpler, it is that stronger high-tech industrial GE that we know we can be. We still have a lot to do. I can be excited about the momentum I saw across the businesses here over the last five weeks, but we know there's a lot more to do. We're anxious to do that. A lot of those meetings in May, Brendan, were in person, and that's a far better way to operate, with due respect to our setup here this morning. The hallway conversations, the body language, all of that. The technology got us through the last year, but I think we're keen to get back out of here in the second half and be in the same room and do better work together as a team. Over time, I think we are going to create a lot of value, and have that resonate both with customers and with investors. So with that, we'll throw it back to you.

Brendan Luecke:
Wonderful. So outstanding over you. Thank you so much and really pretty remarkable transformation over the last two, three years here. I guess, first question on that topic. Clearly, pretty big shift you've been very transparent about the decentralization, driving lean principles, organic growth, good growth, profitable growth. I'm curious about the cultural transition. How is that setting in? How has that played out across your senior team? And where do you think we are in that journey?

Larry Culp:
Well, we didn't talk much about culture, right? But when we talk about the team, that's really the talent and the structure of how we come to work every day and, ultimately, the culture. Brendan, you know what a lean culture looks like. I've just long been of the view. You don't wake up one day, come at the table and say, I want our culture to go from X to Y, right? You change culture, in my view, by changing the way we work. That's really what the lean effort has been about, right? It's about the customer. What does the customer want? How does the customer measure our performance? Not how we see ourselves. How do we go about driving continuous improvement? You first have to recognize that you can be better, right? Rather than pounding your chest, thinking that you're the best thing ever, but you need to do that systematically. You need to do that methodically. That's where the problem solving work that we do is so important. But again, that's not just an approach that you can bring in a consultant to drive is, and you had a front row seat to this, right? You need to lead a lean transformation from the front. It's got to be hands-on. Nothing is too small to matter, right? Days count, hours count, the details matter. Ultimately, managing that way at Gemba, at the place where the real work is done, redefines the leadership model. A year ago we rolled out, this is what 18 months in to the lean work, a declaration of our leadership behaviors. Talked a lot about focus, humility, transparency, maybe some of those are words are not words folks would associate with GE. But given our ambition and our capabilities, while we might be able to do almost anything, it doesn't mean we should try. We need to focus. Likewise humility, a lot to be proud of at GE, but we can always be better. And transparency means simply putting the good and the bad on the table. Right? In equal measure. Let's celebrate and learn from what's working, but let's also get after that, which is not. By changing the way we work in that fashion, I think a lot of people here at GE have gotten excited about what's possible.

Some folks who've been here for a while say, "Well, we used to do that. We used to do some of that." Well, I'm not focused on where we were. I'm very focused on where we are today, where we're headed tomorrow. And I do think that as the lean flywheel turns, you're going to see the culture continue to evolve. We certainly have brought in a number of new leaders as well, to compliment the GE team, that helps accelerate that sort of change. But I think all and all, where are we? It's still, probably just in the third inning, Brendan, relative to what I see. But again, I take a lot of excitement and encouragement from what I've seen, just being back on the road in the last five weeks in our second quarter reviews.

Brendan Luecke:
Excellent, thank you. I'd like to pivot a little bit and just talk about the businesses, a few quick questions.

Larry Culp:
Sure.

Brendan Luecke:
First off, Renewables. I mean, obviously one of the big growth stories at GE, but profitability is hovering around zero over the last couple of years. And the lion's share of revenues are sitting in equipment, not aftermarket services. How quickly do you see that mix shifting as the business ramps? How big do you
think that opportunity is? And how defensible do you think those aftermarket revenues are, relative to other pieces of the business?

Larry Culp:
Right. Brendan, there's a lot there. Let me try to unpack some of that. I think we have been consistent, relative to the profitability and the cash challenges in Renewables. I think you need to break it down right in Onshore Wind. I mean, we've got an enviable position, particularly here in North America, but a combination of issues has had us underperforming internationally. As we go forward here, better selectivity as to those sorts of projects that we pursue, both in terms of certain geographies and frankly, scope. How we go about cost, from product platforming upfront to procurement later on in the life cycle is going to help us here and a number of the organizational moves that we are in the process of implementing, I think will help us in that regard. So I think what we will see is better performance in Offshore Wind as the international side of things picks up their pace. We know Offshore Wind has been simply an investment. And there were some people who suggested when I joined two and a half years ago, kill it. It's just, we don't have the money, it's not going to be that big of an opportunity. And now what are we talking about, 200 gigawatts of potential, clearly an ambitious target just here in the US set by the Biden administration and a lot of opportunity. We have now almost a 6 gigawatt pipeline ourselves on the back of what we're doing, particularly with the Haliade-X. I mentioned some of the approvals that we have and that are pending there. We will get that business profitable as we get into a meaningful revenue stream. And then it's really all about the turnaround in Grid, frankly. Again, a business that we acquired a host of issues, but given what I saw just last week, that will be a profitable business for us. And it should be, we run it well. Again, given the wealth of opportunities we have, vis-à-vis the grid and the energy transition, services cuts across all of them.

Brendan, I don't think you'll see services in Renewables approach the greater than 50% of revenues that... I mean, some will have notice in the slides that we enjoy in Aviation and that we enjoy in Power. In part because the install base is growing quite rapidly, right, 7%, 8% annually, but also there are a number of structural dynamics there. But that said, between the way we will ultimately help modernize the install base out there, as well as apply more digital capability to the service work that we can do, I think you will see that service penetration, which is roughly 20% today in the segment increase, but I don't think it's going to be approaching half of that segment anytime soon.

Brendan Luecke:
Okay. Thank you. That's very useful. And shifting gears a little bit, Aviation. So as we sort of look at the shape of the recovery, we haven't seen much by way of retirements. Have you seen any uptick here or any other indication that we might be looking at a structural shift towards lesser travel overall?

Larry Culp:
Well, we really have not seen an uptick Brendan, relative to retirement. I think there's certainly a number of structural dynamics that are still going to play out. We're still seeing a number of moving pieces here in the second quarter ourselves and I think the industry is going to need a couple more years for everything to settle out, for whatever the post-COVID world would look like. But again, I just take a lot of encouragement from what I saw in some of the comments overnight, our friends at American and our friends at Delta talking about a nice spring back here in leisure travel, I think optimism relative to business travel. And we know the positive effect that vaccines have had here, certainly in China and I think we're going to see that hopefully later this year in Europe and in points elsewhere. Not to diminish the tragedy that clearly is still underway in places like India, and that's just beyond sad.
But I don't think there's a structural change. And maybe I'm a bit of an outlier here, Brendan, maybe I'm a bit old school. But again, I know I saw things on the factory floor in Lynn and in Durham on these recent travels that I would have never seen through Teams. And we're a big Teams house here at GE, happily so. Right. The hallway conversations, the questions I could ask, the questions I got, aren't going to happen with 20 people on a call like this. And let alone the body language. We hired a lot of people during COVID and to get them out of their guest bedrooms and get them into the room, it's just a better dynamic. Now we'll have to work through getting everybody back to the offices, but if that is any indication of the reality that awaits us, well, there'll still be I suspect some change, I think the aviation industry is poised to get back on a long-term growth trajectory.

Brendan Luecke:
Right, nothing like getting to Gemba. Any reaction to the AirBus announcement last week? How does that square with your view of the recovery?

Larry Culp:
Well, we obviously always pay attention when Guillaume or Dave are talking about where they're taking their companies. We're honored to be under wing, both at Airbus and at Boeing, and work very closely with each OEM to make sure that as they think about, not only a production rate expansion from here, but also new platforms that we're well positioned to help them where we can. So I'll let Guillaume and Dave talk to production levels, but rest assured that we're very keen to be of service and support them as the industry recovers.

Brendan Luecke:
Right. And then one last question around the recovery trajectory in Aviation. How should we be thinking about structural costs as demand rebounds? And what gives you confidence that that cost status can be beyond normal productivity gains, particularly in a supply chain where pretty much everybody's trying to extract savings?

Larry Culp:
Right. Right. Well, Brendan, the way I think about margins at Aviation, you have a host of cross-currency or you talked about retirements, the knock on effect relative to USM, cost out on our book, right? $1 billion last year, $500 million this year. Some of that's going to come back, no question as shop visits increase, hopefully sequentially and hopefully soon, and as we get back to an upward trajectory on new unit production. But I think given the structural moves that we know we made and the opportunity to accelerate lean, if I was to force rank where we are with respect to lean across the four businesses, Aviation is probably not in the first half of that list. Take the Strother example again, I think there's just all sorts of opportunities along those lines to continue to take cost out as the industry recovers. And that's why I think we have the confidence, we can get back to that high teens, 20% op margin level as volumes recover in Aviation.

Brendan Luecke:
Okay. Very good. Let's pivot into Healthcare here quickly. Around the shape of the recovery, do you foresee any sort of long-term impacts, particularly around the financial strain in US hospitals, maybe accelerated consolidation? We've seen a lot of critical access, rural facilities on the ropes over the last year and a half here.
Larry Culp:

Well, I don't think I've ever been asked that question, Brendan, relative to rural health. I think that is a real issue here in the US in the wake of COVID, but fortunately it's been a priority in some of the stimulus work that the Biden administration has crafted. I they understand well that that's an important part of overall health care delivery in the US. But I think we're very encouraged, frankly, about the future of health care from here. Clearly some bumps, we saw it in our business, we were not alone. Even some of our biggest customers are now just getting back to pre-COVID levels. But I think that between what we know we can do a better job of commercially, what we can deliver in terms of innovation, COVID has also I think put particular focus on more integrated and more digital capabilities. Just our command center and what our command center capabilities have been able to do with respect to managing patient overload, telemedicine and the like, I think is particularly exciting for us. A little bit more pressure in private markets in the wake of COVID, that's coming back. But I think COVID has also stirred the souls of governments around the world relative to healthcare modernization. I think we stand contribute and benefit from that. So again, I think all in all, we should be able to increase the rate of growth in Healthcare, that's largely an execution story. I think the market backdrop will be there and that will be profitable, good cash generating growth with high impact in the clinic.

Brendan Luecke:

Okay, fantastic. I do want to touch on inflation and supply chain rather du jour, at the moment. How well do you see GE positioned on the inflationary environment and should increasing costs come to bear? Could you share a little color around the pricing playbook? So how you managed and so forth.

Larry Culp:

Sure. Well, I think it's both a price and a cost play here, right, because GE is no exception to what's happening out there. Metals pressure, be it steel, be it copper, resins, microprocessors. We buy a broad basket of commodities, we see that that happening. Some of the shorter cycle dynamics are probably more evident in our Healthcare business. Our longer cycle businesses tend not only to make longer term commitments to customers, but in turn lock in with the supply base. But I think we're trying to do what many companies are doing, making sure that we're pushing back on cost where we can, be it with a vendor or in utilization of various commodities, be it the elimination of waste, redesign, and the like, the typical industrial techniques.

But at the same time, making sure that we are trying to get compensation where we can relative to price. A number of those long-term contracts have escalators in them, which give us some of that structural protection. But at the same time with logistics pressure, for example, we need to make sure that we're looking at every possible opportunity to help buffet what's happening from the cost side. I was with a business just yesterday. I won't name the business, but they had a little nugget. They said, "Well, we've been looking at this. We realized we haven't raised prices in eight years." Before I could say, "Well, it's time," they said, "We raised prices Friday." So those are the sorts of things that I wouldn't say are necessarily unique to GE, but that we're spending a tremendous amount of time on, and did during the course of May to make sure we're pushing back where we can, getting price where we should.

Brendan Luecke:

Fantastic. I do want to touch on free cash flow a little bit; obviously it's been discussed extensively in other forums over the last month or two. Is there any color you could share, particularly on the bridge from '21 forward as we sort of walk towards that high-single-digit margin?
Larry Culp:
Sure. Sure. Well, again, if I can quantify high-single-digit as $7 billion, just to bring that into maybe a simpler way to walk.

Brendan Luecke:
Sure.

Larry Culp:
Again, top of the house, $85, $90 billion at 8% gets you there. That simple multiplication. But if you break that down by the businesses, we know Aviation is going to be the big bar on the parado. Right? We get back to 2019 levels, which we think we can do. Again, if shop visits come back, if some of that restructuring holds, as the Military business clears some of this backlog of good profitable business, we know how to do that. We just have to do it. You put that together, that's $6+ billion of op profit. We go to Healthcare. Again, a business improving from low- to mid-single-digit top line performance, 25 to 75 basis points of op margin expansion with high cash conversion, that's $3 billion to $4 billion of op profit there. We talked about Renewables earlier, Brendan, a lot of moving pieces. It's been a drag force, but that can profitable. It may not be the most profitable business in the portfolio, but let's assume that's modestly positive. And then we have Power. Gas has proven its metal. I think we'll work through the dynamics in Steam and the other two businesses, Power conversion and Nuclear. Nuclear is steady. Power Conversion is now at break even, getting better and really leading us in the industrial electrification space. But if you look at the segment, that's probably, call it $1 billion to $2 billion of op profit. So $6 in Aviation, call it $3.5, take the midpoint in Healthcare, Renewables is positive, take the midpoint $1.5 billion in Power, throw in $1 billion for corporate, we'll do better, but let's just have that as the [inaudible], I think that gets you to about $10 billion of op profit. Take off a little bit of interest, call it $1 billion, tax effect it, convert it into cash, and I think call it 90%, you get right in to that $7 billion range.

So we know what we need to do in Aviation. We're doing it in healthcare. We're on our way in Renewables, Gas power has shown us the way in Power. And just play that out over the next couple of years, and I think we can generate that sort of operating profit and in turn have that convert into that type of cash. So easy to lay out for you. A lot of work. It's going to take us a couple more years to get to that level, but I'm confident we can do it.

Brendan Luecke:
Excellent. So when we get there, I've got an audience question here. So we hit $7 billion, what are your thoughts on capital allocation at that point?

Larry Culp:
Well, I think that you see us already doing a few things that may be is as good a way to answer that question, Brendan, as anything. Too small bolt-ons here in Healthcare, right? Prisamtics at the end of last year, Zionexa, the oncology biomarker business that we just recently announced. You see us investing in Healthcare and you see us investing in bolt-ons. If you think about the businesses and the type of acquisitions we could make, bolt-ons, adjacencies, and breakouts, Healthcare bolt-ons is probably going to be our best bet.

But I think over time, what you'll see this board have the opportunity to do is really think through capital allocation more broadly. We want to get back to a more competitive dividend, right? It's been a while. Buybacks ought to be part of that conversation, let alone redeployment back into the business.
Admittedly, we haven’t spent a ton of time on that, given the de-leveraging in the operational transformation. But I think as we go forward, the management team of the board will spend more time on that. And in the spirit of creating and exploring that strategic optionality, we’ll make sure that we are doing all that we can to have GE realize its full potential. Not there yet, but hopefully you see a little bit of our biases and our tendencies emerging in some of these small Healthcare moves.

Brendan Luecke:
Fantastic. So I want to get a couple more from the audience here before we wrap. On M&A, I mean, obviously GECAS is a transformational deal, congratulations. Can you offer any commentary on long-term care?

Larry Culp:
Long-term care. People asking about Long-Term Care, they’re referring to our run-off Life Care, long-term care insurance business, which has been part of GE capital. I think two things Brendan that I think are top of mind for investors. One is that the claims curves that we reset a few years ago thus far have really stood the test of time. And I think that’s encouraging, given that the nature of that liability was tough to pin down in years prior. I would also say that part of enhanced strategic optionality clearly is going to enable us to think about how we would retire that. I’m often asked, I think with a straight face, would you move it out of the GE portfolio if you could? I don’t think we have any desire to have that be part of GE indefinitely. We’re going to manage it well while it is, and certainly entertain discussions to move parts or all of that run-off obligation. But I’m encouraged by the way the reset curves have held up. I’m encouraged with the way we are managing the assets there. And I think over time, as GE is stronger, I suspect counterparties will be a little more balanced in discussions and we’ll see what happens.

Brendan Luecke:
Excellent. One quick question here on ESG. Can you talk at all about long-term emission targets?

Larry Culp:
Yes. Well, we’re in the process, Brendan, of working through a sustainability report which will highlight a number of our efforts in this regard. Again, I think when you think about sustainability, for us, I think what we’re excited about is that whole conversation is very much on strategy given where we play in the energy transition, both in Renewables and in Power. So as companies and as countries talk about Paris and even accelerating those sorts of aspirations, we find ourselves smack in the middle of those conversations. Again, how do we drive more renewables? What’s the role of gas? How do we make sure the grid is ready for more renewables? And in turn, I think that’s frankly, the biggest contribution that GE can and will make as we think about the energy transition.

Brendan Luecke:
Excellent. It could be real tail wind of the GE story. Very good. Well, we have a couple of minutes left here. I want to, just for a moment, sort of play the clock forward. If we knock on wood three years from now, COVID is in the rear view mirror, the cycle shall we say has normalized, what makes you the most excited about the GE story long-term? What should your investors be excited about?

Larry Culp:
Well, I can't wait to be at that point that you just described, Brendan. I don't know when that will occur, but I am confident that we will be there. And I guess what I'm excited about, let's say when we get there, but I'm also excited about the journey, is that we will have these leadership positions in these important and attractive markets: aviation, healthcare, the energy transition. We'll be doing important work, again with lean and decentralization. We'll be doing it well. And it will be doing it with this team, which is a pretty darn good team in my view. So, that's what I get excited about and I think that if we do what we are capable of, in turn again, the results for investors and customers will also be exciting. A lot to do, but rest assured this is a team that's on its way.

Brendan Luecke:
Outstanding. Well, I'm sure I speak for many folks when I say we really look forward to watching it play forward. Thank you again so much for joining us today, Larry. It's been an absolute pleasure and look forward to talking again soon.

Larry Culp:
Thanks Brendan.

Brendan Luecke:
Take care.