**General Electric Co.**

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Markus Mittermaier: Welcome back to the UBS Global Industrials and Transports Conference. We are halfway through the second day here. I'm Markus Mittermaier, I'm the Multi-industrial Analyst here at UBS and I'm delighted to have Carolina Dybeck Happe with us, SVP and CFO of General Electric. Carolina, thank you so much for being with us.

Carolina Dybeck Hoppe: Thank you, Markus, it's great to be here. I know how busy one half day, let me tell you, it's been a busy start to the year for all of us.

Markus Mittermaier: Right. I can imagine. And I think you have some opening remarks and I'll hand over to you in a second. I just want to remind the audience that you can ask questions, and please type those in into the little window that you have in front of you and I'll ask them for you trying to make this as interactive as possible. And with that, Carolina, over to you. Thanks so much.

Carolina Dybeck Hoppe: Thanks. Well, let me start by saying that our transformation to become a more focused, simpler, and stronger high-tech industry company is accelerating. We've made a lot of progress over the last several years, including the AerCap GECAS combination. We’re pleased the AerCap shareholders approved the deal recently and that the DOJ has completed its review in the U.S.

So upon close with AerCap, it will drastically simplify our reporting structure. We're going from three columns to one column of financials and it enables us to significantly reduce debt by more than $70 billion over three years. And due to our strong liquidity position, we were able to act opportunistically, further progressing our deleveraging plan. So we announced the results of our debt tender yesterday and it's an upsize from our original expectation.

Using cash on hand we repurchased $7 billion of debt, bringing our gross debt decrease to $50 billion since the end of 2018. At the same time, we're continuing to run the businesses better and shifting towards more offense. Earlier today we announced that one of our Grid joint ventures will acquire SPX Transformer Solutions Business, enhancing its position as a key player in the growing power transformation market in the Americas.

So recently we finished our second quarter operating reviews. Our teams are really picking up the pace on implementation and raising a more decentralized business model. From those reviews, we're seeing how lean is driving cross-functional work and better problem solving. Let me show you an example on cash management. So, here we're getting back to basics on billings and collections. Historically, about half of our billings happen in the first two months of the quarter and the other half, in the third month. Partly driven by the timing of our deliveries. Overall, too backend loaded. And we have become too reliant on quarter end billing and subsequent factoring. Now we're increasing end-to-end accountability with our commercial, operations, and finance teams all working together to deliver and bill earlier in the quarter so that the linearity improves as well as the collections profile.

This also is going to have a positive impact on quality and cost, and most importantly, happier customers. We're seeing early signs of improvement. For example, DSOs improved two days in the first quarter. And this is one example of how we further strengthen our operational cash management muscles.

Over time, this translates to more sustainable and linear free cash flow; setting us up to drive organic growth through targeted investments in R&D and commercial presence. So let me share how this is playing out in the businesses.

At Aviation, we're planning for the market recovery which we expect to be in the second half of 2021. We're closely tracking departures which are trending down about 38% versus 2019 levels. In the second quarter we are expecting margins to be sequentially lower driven by continued COVID related pressures and unfavorable contract margin reviews; a process we complete every quarter. However, our guide of low double-digit margins for the year remains unchanged. At the same time, we're encouraged by customer wins like IndiGo, one of the largest in CFM's history.

In Healthcare, we've had three quarters of outstanding performance with margin expansion and cash generation. We remain encouraged by this strength and we continue to invest aggressively with digital being a critical component. The Vscan Air ultrasound product is a good example; portable, lower cost device that provides full body scans. In addition to our organic investment, we also closed two acquisitions; Prismatic Sensors, which is pioneering photon counting technology using deep silicon-based detectors, and Zionexa, an FDA approved PET imaging agent with a pipeline of agents that compliment our PDx.

At Renewables, we're playing a critical role in the energy transition. When proving our margin and cash performance, we've had our best operating reviews yet at Onshore Wind and Grid this quarter, which makes us confident we're on our way. Recently, we were also selected the third phase of the Dogger Bank offshore wind farm; the largest in the world upon completion.

At Power, we recently announced Scott Strazik as the new CEO of the entire segment; managing all four businesses. Gas power represents about three quarters of the total segment and so far, in the second quarter, our planned outages are playing out as expected this quarter. And for the full year, Gas Power is still on track reaching high single digit margins.

Currently, like most companies, we are seeing inflationary pressures and we have several levels at our disposal to help offset them over the long-term. We're actively managing commercial terms, deploying cost actions and getting a better price where we can. So, in summary, despite some market volatility and the factory wind down, we're having a solid start to the year. We are set up well to deliver on our 2021 commitment and profitable growth for the long-term. Thank you for letting me share those thoughts and back to you, Markus.

Markus Mittermaier: Thanks so much, Carolina. You already mentioned a lot there and I'll come back to some of this, I think, as we go through the discussion. But maybe in retrospect, you know, I think you probably couldn't have picked a more interesting time to take on the CFO role at GE. If you think a year ago, a lot has happened and a lot has changed and I think you alluded to some of the changes that you made in the finance function. But maybe I can start here. You know, what are those key changes that you made in finance and what are the signposts that we should monitor from here and later on we're going to more discrete items. But let's maybe start at the more higher level.

Carolina Dybeck Hoppe: So, Markus, yeah, I would say it's probably hard to imagine a more challenging environment to join as CFO than this set up. But I would say that we've taken a lot of important steps both before I joined but also since I joined. I talked about reducing our debt. Now we're down to $50 billion reduction, right, with the current announcement today. We simplified the portfolio; Baker, Biopharma, Lighting, and the AerCap transaction, really becoming an industrial. I'd also say, on the business side, we're really setting the company up for a strong rebound after the pandemic and we took action fast when it hit. So, of course, this is helping us accelerate GE’s transformation.

And if I look at what I see in finance specifically, I would start by saying that I'm really, really impressed by my team; all of the members of my team, and to be here and have the opportunity to lead these fantastic teams. There are many things that we're doing well but in the spirit of lean there's also opportunity to continue to improve and I would say, in finance, our priorities they are there to support the GE transformation and we're focusing really on deeper operational visibility and actionability as well as a greater focus on cash flow.

So, I would say we're working on getting the right data at the right level and at the right frequency to our business leaders so that we can make the right decisions. And if you look at what that means, first the right data. So we're looking at the P&L in a much more granular way, right, and making sure that we can make decisions based on that because that's really how you see the insights. And we've talked about working capital and how we have updated the working capital definition so that we better work with operationalized improvements. And we talk about operational KPIs like DSO, DPO, material throughput time, inventory turns and so on to make sure we drive underlying improvements.

But also the frequency of the data is important. And we talk about lean, and you know we talk about daily management. Aso in finance it's important that we make sure that there is financial data that's relevant on a much more frequent basis than what we've had before.

And I would say the third one it sort of ties into the decentralization. I would say I'll admit to one of the drivers behind us having now almost 30 P&L's compared to the segments, right. So, of course it's also finances job to make sure that we have those P&L's and the whole package, not only segment, but basically 30 different businesses.

And the question sort of, so how do we get there from finance? Well, we work with lean and automation to drive process improvements just like the rest of GE and that's how we can better support the business leaders. And I'm really proud to say that I know that everyone in finance is now working on some part of our priorities to improve. And how are we going to see improvement going forward? Well, we're going to see it in improved cash flow, improved margins, right? We have the measures for us as well as for the rest of the business and we're a team that works cross-functionally to make sure that we deliver on that.

Markus Mittermaier: Great, excellent. So there was a lot there and you mentioned the move from, I think, five to the 30 P&L's getting that greater visibility. If I look at some of the numbers that you mentioned earlier, the debt tender for example, yesterday, right? Sort of like -- I think the original plan was $2 billion, you ended up at $7 billion. Then I think you took the, you know, revolving credit facility down from $20 billion to $10 billion. So, you know, if I look at this, your ability to plan at a more discrete level and your confidence on cash flow, you know, and projecting. You know, is that higher? And the need to run the business on a day-to-day level, the cash need, is that significantly lower now that allows you to make these steps on debt tender, etc.?

Carolina Dybeck Hoppe: Yes, it's all sort of part of the same, right? So, by improving the visibility in the businesses, being closer to the business, it also gives us a better visibility of what's coming, right? So, yes, that is improving. I would also say that stopping factoring is also, what, we discontinued the majority of the factoring program. It's also a big enabler, right? Because what happens is then you have to sort of go back to the basic operation models of billings and collections. I can give an example of what we mean by that. Someone said to me, what do you mean, how does that actually work? So we do the reviews in the businesses. It's usually in one of those 30 P&L's or business units, right, and we were looking at their linearity rather than non-linearity and how they were attacking that to improve that. So, basically a cross-functional team, so (inaudible) operations and finance were looking at where they were. So, currently in that business we've been about 20% in the first month of the quarter, 30% in the second month of the quarter and then 50% in the third month of the quarter, right, so that's really back-end loaded. And they were targeting 10% improvement. So, basically reduced 10% in month three and having much earlier on; preferably in the first month, just not in the third month.

So, how do you get there? Well, they were talking about we need to be faster, we need to bill more frequently. What does that mean? Well that means we need to deliver faster to our customers. So their operation comes in, right, and we need to have our customers sort of have the schedules with us on this. So, the partnership that we had through the different parts of our organization was really what made it happen and I have seen improvements already on linearity because this was not something we started at the same time as we decided on reducing factoring. We worked for a bit longer than that, right? And I'm really encouraged already by what we're seeing, for example, in Gas Power and in Healthcare, right. So, very a complete example of how we improve linearity but also how that is really not only on cash flow. So the outcome is better linearity on cash flow, earlier cash flow, but it's also improving the quality, it's also improving cost, and it's also getting us to better or happier customers as I mentioned in the beginning. But that's also why it is so, so important.

Markus Mittermaier: Great, okay, I think that's great color, sort of like at the depth of the operation on how to get to the target of free cash flow, right? And let's maybe switch to that because I think at earnings, Larry outlined that $7 billion number, right, by 2023 plus. He used, I think, an 8% free cash flow to sales ratio on 2019 revenues just as an estimate. How does that split in your thinking between the segments and corporate and what working capital trends do we expect?

Carolina Dybeck Hoppe: Markus, thanks for asking. So, I think this one is so, so important that there's sort of -- we've talked about high single digit margin, right, cash. When we talk about how we get there through the years, a part of that is improving working capital. But when we talk about overall that number, that really, really is about profitable growth, right. It's really, really about the profitability of the businesses. It's -- it's as simple as, you know, take it business by business. You start with Aviation and we talk about coming back to 2019 levels of both revenue and margins and cash conversion, right. Which basically means that if you take the operating profit that would mean at least $6 billion in operating profit and cash conversion of more than 90%, right? So, $6 billion and the 90% cash conversion.

Healthcare, in that regard, I only talk about an improvement of 25 to 75 bps of OMX, that already includes investing in R&D and in commercial excellence, right. So, basically what we're saying here is that we've been at the (inaudible), $3 billion to $4 billion of operating profit and at the more normalized cash conversion it should be around 100%. So you get that one. For Renewables, all in, we've talked about being operating profit positive as of 2022. And then Power, and that's for the whole segment Power, right, we've talked about Gas Power previously, with services growth and cost out and getting the high single-digit margin this year and 90% free cash conversion next year. But what we also see now is that Power, as a segment, the whole segment would be $1 billion to $2 billion of operating profit and also with a high cash conversion of 90%. And then on top of that, yes, we do have Corporate which we continue to shrink, cost-wise, which should be, let's say, about $1 billion of cost. So if you take all of that together and that's only talking about operating profit, you get to more than $10 billion operating profit by then also having gone through the deleveraging that we talked about, basically that would leave us with less than $1 billion for interest and then the tax on that, then assume that you convert at 90%. You get -- you basically get to the high single digit free cash flow margins.

So it's really, really important to say that that's -- that is sort of how we see the businesses and the total getting to that number. On top of that, we will continue to work on operation improvement and using lean to offset I would say the natural working capital needs that would come from growth. But this is really how we get to this number. We've also talked about spending less on restructuring and on (inaudible) which will also come sort of on top of that. So, that's why it's so important to see, the longer-term goal is basically about converting healthy organic growth and profit and that profit to cash. And then being effective on working capital.

Markus Mittermaier: Great, okay. No, thanks for that color. That's very helpful. So, maybe let's unpack that kind of segment by segment and I want to start with Aviation, if I may. You know, if we think about the recovery trajectory, obviously it's hard to estimate the exact pattern here quarter by quarter, month by month, but ultimately could you update us on current trends on the commercial side? It's obviously dependent on vaccinations. Any color you can give us by region would be great.

Carolina Dybeck Hoppe: Yeah, definitely. And I would say we continue to see the significant differences in different regions. And we're also looking at what does that mean for narrowbody versus widebody split, right. But if you look at the geographies, so global departures, as I mentioned in the beginning, is down about 38% versus 2019 level, right. So it's up slightly in April and May versus March. But I would say, broadly speaking, it's also been ticking up slightly positive in the last weeks.

And if we look at the different geographies then, so, clearly China, strong. Nearly back to 2019 levels. North America, carriers are talking about adding summer capacity as a special domestic routes, right. The areas which are a bit tougher is Asia, sexcluding China. That's also an area which has the biggest percentage of total border closures. You also have India in this area, right. I would say in Europe, there is some recent improvements. I'm sure that has something to do with summer holidays. We're now down at 66, but it's better than 75 which it was just a couple of weeks ago, right?

LATAM still down 39% versus 2019. And I would say for us, what we're seeing is that we have no overall change to our outlook. We're still planning for flat departures in the first half compared to exit, the 2020 exit rate, and we also expect the total year shop visits to be flat year-over-year.

Markus Mittermaier: Okay, got it. And then if I think about free cash flow, maybe over the medium term, is it fair, as we think through that recovery, that cash flows recover faster and develop faster than top-line just given the higher CSA portion that you have on newer engine platforms like the LEAP, for example?

Carolina Dybeck Hoppe: So, I think we should start by just, again, saying that we're confident we can get back to 2019 levels on both revenue, margin, and cash. But exactly how we get there will depend on the market recovery. And you asked also about the near-term or the short-term. Well, the shop visits, and therefore the revenue, lags departures. The departures is what drives billing and cash. So that's why cash recovers faster than the operating profit. And part of that is driven by the CSA utilizations that you talked about.

There's also a mix impact to that. If we talk about CSAs, you can say that even within CSAs we have different types of contracts or different types of, like I said, billing structure. So, two different types. We have basically what we call popular and restored. So popular, that's -- but really we're billing depending on the flight hours, so basically as the engines are flying. The restored is also based on hours flown but it's really only collected between shop visits. So, that's sort of how you do the calculation and that's when you are billed for that time. And if you look at our split, about 75% of our CSA fleet is with billing; although it's a bit different between different product lines. And when it comes to CSA penetration in itself, it also varies by product line. I would say it's typically higher on new programs because it's earlier on in the engine’s lifecycle. And that's true for the LEAP as well, right, we've talked about, on average, around 60% of the fleet on the CSA versus our overall portfolio which has around 30%.

So those are sort of the dynamics that go into calculating what the overall numbers will look like. So, there are many different dynamics here that go into sort of the calculation but what's really, really most important, is the pace of the recovery in the aftermarket. So everyone getting back to flying as soon as possible.

Markus Mittermaier: Yeah. Okay. So, thanks for that. I think there was actually a lot of granularity in that answer, so I appreciate that. Maybe can I -- last question --

Carolina Dybeck Hoppe: -- Markus, since I know you are that granular in your model.

Markus Mittermaier: We try, we try. So, you know, the last question on the recovery and that near-term, because I know it's difficult to just project. But maybe I'll ask a question another way around and say, okay, compared to 2019, what level of Aviation traffic would you have to have to get back to 2019 cash flows? I know it might be an impossible question to answer, but if you look at it that way, like how much do we have to get back in terms of traffic to kind of hit 2019 levels on cash flow?

Carolina Dybeck Hoppe: Well, I would start by saying that if you take mix out of equation, you sort of -- we expect to be back to the departure levels to 100% of what they were before COVID, right? But there are some variables within that. So, I mentioned narrowbodies and widebodies. So, for example, with narrowbodies, we expect them to come back faster. We talked about being back to 2019 levels in 2023 and for the widebodies, we said that we expect them to continue to lag and probably not until 2024. And this is obviously for the larger engines which means more content than shop visits.

Then overall we also have growth in Military that we expect to continue. So that's in total you can say that the shop visits and the revenue are back to around 2023 levels. If you talk about the -- I would say the free cash flow, I just mentioned, right, that that would come back first depending on utilization and the billings. But also the margin then and the top-line would come slightly after that.

I would say that, if that is sort of the basics, what we have done on top of that to improve, to get faster to that level is worked a lot with the cost side, right? We took out a billion of cost in Aviation last year and we're planning to take out -- we already are taking out more this year.

Markus Mittermaier: Okay.

Carolina Dybeck Hoppe: So that would be part of offsetting the pressure that we see depending on the mix, how it comes back. And also, the fact that when we transition sort of toward the newer models, that's a bit of a margin drag. You mentioned it both with the LEAP but also with the 9X.

Markus Mittermaier: Yep, okay.

Carolina Dybeck Hoppe: So that's how we get -- that's basically how we get back but exactly when and how that happens, I don’t think anyone knows that right now.

Markus Mittermaier: Yeah, yeah. No, I appreciate that. And speaking about the mix, obviously the CFM56 is very important here as one of the core cash flow generators here in the aftermarket for the coming years. Give -- relatively young fleet. So what I'm wondering about, how should we think about shop visit dynamics here from the airlines going forward? Because I'd assume that those, you know, engines that are on a long-term service agreement from GE probably have their shop visit booked at some point. So, at what point, you know -- or maybe asked differently, what's capacity like for shop visits in 2021 second half, and 2022? And you know, at what point is there maybe, you know, short capacity of remaining slots? How do you look like in terms of bookings versus capacity of shop visits.

Carolina Dybeck Hoppe: I'm glad we're talking about if we would have capacity to handle coming back to service, right, rather than the other side. If you just start maybe with the visibility. So, the visibility and the scheduling is very dependent on the demand and utilization profiles, right. So the dynamics are also different if it's internal shop visit versus external. So -- but half are internal and have are external.

So, for the external visits, that’s less visible to us but we work with all of our partners just to make sure that they have materials. We can sort of see part of that by the material that they need. But it also depends on what inventory levels they have, right.

On the internal shop visits, of course it's much better visibility; especially I would say the interest of coming on CSAs because that could be planned, right? How far out can we see? I would say we have some visibility six months out, better three months out but we don’t know exactly which plane where until were probably six to eight weeks out. And on top of that, I would say that it's not only -- although it's important to mention also that it's not sort of our -- and with GE and CFM capacity, because of the open network model that we have, customers can service the engines that not only different facilities around the globe but they can also decide to go to GE, Safran, or a third-party.

I would say for the next three months, a lot of shops are filled because customers are clearly preparing for demand ramp but we still have some service capacity just to make sure that we can serve all our customers. You know, that can change depending on how our customer behavior changes, right?

If I look at 2022, sort of monitoring the trend but also making sure that we have the labor capacity to match the demand. I would say the shop capacities is there but you also need the people sort of to be there and to be able to make sure that we ramp so that we can support our customers whenever they are willing to have shop visits. And, of course, depending on how the ramp comes back, you know, and how fast it comes back, it's going to be super important for the airlines to be in front of the of (inaudible) recovery with aircraft that are serviced, right? So, I would say that we will size our business as we said in the beginning of the pandemic, continue to size our business based on the market reality and we are really thoughtful about the recovery. But we're preparing to support our customers as the markets recover.

Markus Mittermaier: Okay, great. Thanks for that. And maybe last question on Aviation for now on margins and incrementals. And, you know, how should we think about that going forward? You mentioned earlier obviously mix impact from the launch of the 9X on the OE side and still LEAP. I suspect, I don’t know, but I suspect that on the 9X level curve might be, you know, less steep, the benefits there that on the LEAP. So, how should we think about that going forward?

Carolina Dybeck Hoppe: First of all, Markus, I'm really happy we're starting to talk about incremental and no longer about decrementals. It's a much more pleasant situation to be in. And I commented on the second quarter margins. I would just say that the second quarter margins comment is really because of the COVID-related pressures that we see still and the unfavorable contract margin reviews that we had, right? Because we're seeing, you know, Q2 it's still in COVID but important is that for the full year, low single digital revenue growth and low double-digit margins stands, right?

And so how do we look at that going forward quarter-by-quarter? I guess each quarter we invite a bit. Of course we have year-over-year comp but it also depends on how the recovery comes into the results, as we talked about the shop visits, the mix, what's the scope and then engine deliveries on top of, we talked about services, what about the engine deliveries? So all of that will have an impact on our margins.

Of course, the margins are very dependent on the pace of service recovery. And you talked about the cost curve or what about the new programs? I would say that without going into any specifics, but if you compare the LEAP, you can say that lower volumes means a slower learning curve; although it has a lot of new exciting technologies. And larger engine, larger losses, and the margins are impacted as a result of that.

I would say that we're really excited about the 777X and the 9X engine and long-term we're all confident that it's going to be a really successful program for decades to come.

Markus Mittermaier: Great, okay. Maybe I'll switch to Power real quick. So, you've mentioned already, and you've been guiding for high single digit segment margins on the Gas Power side with a 90% cash conversion in 2022. On the sizing of digital margins. You've announced that on the Steam side, there's obviously a restructuring program going on where at some point I suspect that there's some sort of ultimate fixed cost adjustment coming out of that program, whenever you're ready to communicate that. So, against the background of all that you do on the Gas and on the Steam side between the fixed cost out and the mix shift to services, the reduction on the turnkey exposure, is there any reason why I shouldn't think that this goes back to double-digit margin, the overall business?

Carolina Dybeck Hoppe: First things first. You'll want to get to -- we talked about $1 billion to $2 billion of operating profit for the whole segment, right? And if you look at the different pieces here, so we have Gas on the path to deliver the high single digital profit this year; continuous momentum both on lean and more disciplined underwriting and cost out. And we talked about high conversion already of cash flow in 2022.

You mentioned Steam, yeah, that's a big undertaking and we're working through that exit. Also steam, if we look at steam sort of post restructuring, we would expect that to be two-thirds services, right? So that's going to be in a good place. Power Conversion on track to be profitable this year and also Nuclear (inaudible) already now (inaudible) of services. And I would say that overall what we see continues to improve is sort of lean taking hold. So it's not only the big restructuring programs but also a lot of the continuous improvement that is happening and that's also how we get to the number. But Markus, we have to walk before we run, right? So, we'll get there first and then before we get there we'll talk about the future or when we're almost there, okay?

Markus Mittermaier: Okay, great. We'll be watching. Thanks for that. And then maybe on Renewables. You've mentioned already sort of the trajectory towards positive free cash flow here next year.

What are the moving pieces in that number, you know, also in terms of progress payments on the Haliade-X, etc.?

Carolina Dybeck Hoppe: So, I think when we look at Renewables overall, I think what is super important is that what we're focusing on is to make sure that we are having end-to-end profitable growth and profitable projects, right? And that's sort of Onshore Wind but all the projects there. We are seeing really good uptick also on Offshore Wind, so we expect both Onshore Wind and Offshore Wind to have good progress payments. But I have to say that it all really -- it starts and ends with profitable projects end-to-end and that's where our main focus is. You will see the progress payment be lumpy as they sort of come in, and they come depending on exactly when they come, but the most important part is really making sure that we are profitable in the businesses.

And if you look at Onshore Wind, I would say we are on a really good way there. I mentioned that we had great operating reviews and we're really focusing here on the underwriting, but also increasing the service penetration and improving the profitability especially on the international side. We talk about Grid and we're targeting breakeven in 2022. And really it's about -- I would say Grid today is six different operating units as it (inaudible) accountability and more centralization than before. We're seeing in Renewables on the cash flow side also, working capital, we talk about progress but we're also seeing improvements in inventory and in receivables. A combination of all of that is really how we expect to get to a positive free cash flow for Renewables.

Markus Mittermaier: Okay, great. And then I guess we'll look for longer-term how that profit pool develops but maybe that's a separate discussion in more detail on Renewables that are at a different point. I'm just watching the time maybe. We have ten minutes to go and client questions are coming in. So, maybe on Healthcare, there's a question around elective surgery volume. What do you see in that business? What are trends in imaging in your main regions?

Carolina Dybeck Hoppe: So, if we start with elective surgery, it's clearly positive momentum now as the vaccine continues to roll out, right? So the volumes are stabilizing and we see positive trends. I would say globally the scans are above what COVID sort of -- pre-COVID baseline, right? So that's really good to see. We expect recovery to continue, momentum in Q2 and continue to increase in the second half. We're also focusing here on the growth that we have both on product innovation but also services and an even stronger, I would say, commercial execution in support of our installed base.

The other one was on imaging trends. Also positive, (inaudible), we are above pre-COVID levels with both China and U.S. improving sequentially. So, also strong improvement here.

Markus Mittermaier: Okay, great. And then, you know, one question that does come up here and there with investors is around the longer-term strategic orientation of that business. We know one of our large European peers has listed that asset, or their asset, separately. How are you and Larry thinking about that longer-term?

Carolina Dybeck Hoppe: I would say for us in Healthcare, like with the other businesses, we are focused on running the business as good as possible and by having, you know, increasing our margins, improving free cash flow. By running the business better, driving -- and with that, I mean driving organic growth and inorganic growth and at good margin and good cash conversion. That creates a lot of value for us and also it's strategic optionality.

Markus Mittermaier: Okay. Clear. And maybe last one on near-term free cash flows. Any sort of further comments that you can give us for the second quarter here in terms of year-over-year, how will you dial us in here for the quarter?

Carolina Dybeck Hoppe: Well, for the second quarter specifically?

Markus Mittermaier: Yeah. Yeah, second quarter. Yeah.

Carolina Dybeck Hoppe: So, I would say most -- the most important part is that we expect to see improvement from earnings, so better earnings. And that's really a combination of the cost out actions that we have taken but also the recovery we were just talking about in Jealthcare, right? We talked about PDx, it was hard hit last year and that's high margin coming back well.

On top of that, we also expect working capital to improve. We talked about how we're working to improve underlying processes. So we expect that to continue to pay off. On top of that, we do have, I would say, a couple of non-repeats from last year, payables last year. We have a lot of pressure on the payables last year, especially the second quarter where we significantly kept the input by paying the overdues there. So that's not going to happen this year, so that's some positive effect in comparing.

On the other hand we have the Military progress that we received last year in the second quarter which we don't have this year, so that's going to be a negative year-over-year comp. On top of that, it's probably one that is -- it's negative for our cash flow. It's higher ADA, so that's very good because that was our customers or delivery to their customers.

And there's timing also on tax payments and lasts year we paid taxes in the third quarter instead of the second one, we do that in the second this year, it has some affects on the second quarter specifically. And that's on cash flow. I would also just make the comment again that we talked about Aviation margins that, of course, they're going to do significantly better than last year but that it's sequentially pressured still from COVID and the CSA that we talked about. And there's no change overall for the margins or for the cash for the full year.

Markus Mittermaier: Okay, great. And before I go on longer-term topics around offense, etc., what you've been talking about more recently, just a couple of maybe housekeeping is the wrong word, but on some of these overhangs that you've removed, factoring. What I keep getting from clients in conversations is why does GE need it? Like what's the right number? Is $2 billion the right number going forward? Could that go to zero? Could it maybe go up again? How do you think about the need for factoring, right?

Carolina Dybeck Hoppe: I would start by saying we had sort of a big one-time strategic decision to exit the majority of factoring programs in conjunction with the AerCap transaction. And I think that's the important step. We also expect that that step really drives the focus on billings and collections that over time then to reduce the minimum cash. I would say, you know, going forward $2 billion considering our size, $2 billion of factoring and it's basically off-book. I would say that that is an efficient source of alternative funding. But I do look forward to next year when we will be in a simpler, more focused company and talking about the businesses and not about factoring.

Markus Mittermaier: Right. Exactly, exactly. There's one more question here from the audience that I want to make sure we get to. It's around ESG and the question here is, you know, I think the E, the environmental part, is relatively well understood. What about the societal and governance part? Could you briefly comment on that?

Carolina Dybeck Hoppe: Well, of course that's important for us as well. And I think that goes hand-in-hand with our values and sort of if we talk about the way that we want to work with humility and transparency and everything we do that comes across. So that's very near and dear to my heart and everyone's hearts. So that's also very important for us.

Markus Mittermaier: Okay, got it. And then, you know, I know we only have a few minutes left here. What I wanted to get to is sort of you mentioned both on M&A. You mentioned recently you want to play offense again. What does that mean, playing offense going forward because it seems like we are changing the narrative here a little bit?

Carolina Dybeck Hoppe: I would say, first and foremost, let me talk about playing offense. It's about focusing and fueling organic growth. It's both investing in our products and the services that we have. And I would say Healthcare is one example where we talked about it, we actually do both, both the organic and smaller inorganic growth. We take Healthcare and, Kieran was talking about this as well, we launched 40 NPI's just in 2020 and we expect to have 70 NPI's this year and almost 40% of the orders that we booked last year come from new products, and with that we mean products that are introduced within the last year.

And then inorganically we had Prismatic that I mentioned. So they're really good examples of, I would call it, bolt on acquisitions. And you can do different type of acquisitions, right? So we sort of have the bolt-on, but you also have the sort of larger ones and then you have the ones that are adjacent So, I think the focus now is on organic growth and the bolt-on inorganic part. But I would say that over time, you know, we talked about, earlier today, we talked about how we get to that high single digit free cash flow. I think what's important is also that where you have that kind of cash flow, how do you deploy capital market across your business, right? And that is a question that comes more and more into our discussions and it's more and more in our mind, it's more of what we're focusing on. And also the board is starting to think about, you know, kept the -- what we talked about coming back to competitive deal and deliver, you know, buybacks and then, of course, the redeployment of capital back into the businesses that I mentioned earlier on.

Markus Mittermaier: Great, Carolina, I'm afraid we are at the end of time here. It would have been nice to get more questions in here from the audience but thank you very much for your time, really appreciate it. And good luck for the rest of the day. I know you still have some meetings ahead of you. Thank you very much.

Carolina Dybeck Hoppe: Thanks, Markus, and thank you so much for having me and keep up the good work. Bye.

Markus Mittermaier: Thank you. Yeah, bye-bye.