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Andrew Kaplowitz:

So we're going to get started. Again, we appreciate everyone's time. I know a few other people will come into the room, but we are very excited to have General Electric with us. We have Larry Culp, who's the chairman of the board and CEO of GE. Larry's been the CEO of GE since October 2018. Long time Danaher, 2000 to 2014, and I very much appreciate you joining us, Larry. I know I want to turn it over to you for some prepared remarks, and then we'll get into Q and A. Again, thank you again for being here.

Larry Culp:

Andy, thanks for the invitation. Always good to be here. Always good to be here in Miami with you. You're catching us at I think an opportune time to give you a bit of an update on where things are here early in the year. We spent the bulk of last week with our GE Vernova team. We spent most of this week with our GE Aerospace team and we'll finish up our first quarter operating reviews early next week. So it's early in the year, but I think we feel very good about where things stand. I think we felt particularly good with the way last year ended. You saw just four weeks ago when we announced earnings that we had I think a very strong finish to a more than respectable year at GE, a year in which growth was up mid single digits. We saw margin expansion earnings growth and nearly five billion of cash generation despite all of the operating challenges that seemingly were thrown at us and everyone else.

So we come into '23 with a lot of momentum. You'll recall that when we did earnings a month ago, we talked about a year in which we see in '23 high single digit growth, at least a doubling, clearly more in terms of our year over year earnings growth adjusted for the healthcare spin out, and another year where we'll see strong cash flow performance as well. And I think everything we've seen over the last seven weeks, it had been frankly a busy period for us, give us nothing but incremental confidence in that regard. Clearly starting the year with the healthcare spin, seeing that not only launch but to see it trade so well was very rewarding. And I think there are lessons there we're going to apply to both the Vernova and the Aerospace businesses as we prepared to stand them up.

We completed the exit over Baker Hughes position, which has been an important part of a hundred billion worth of de-leveraging. We've announced that we're going to call half of the six billion dollars of preferreds that are out there, continuing to strengthen the balance sheet. And we also have completed the cash flow testing of our long-term care insurance obligations very much in line with what we anticipated. So no news there, and that is always welcome news. So a lot going on at the corporate level. But as you would imagine from the operating reviews, the emphasis is really on the businesses at this point and making sure that we're very well-positioned. But all in today, I think what you see from GE is frankly a simpler story and clearly stronger results.

So if I just maybe give you a quick update on what we're seeing with the businesses, we talked about Aerospace having a strong '23 really on the back of the twin recoveries. We often talk about shaping the future of flight at Aerospace in terms of today, tomorrow, and the future. Today is all about supporting the airlines as we see these departure curves continue to improve. I checked just within the hour. Our departures as of this morning really across the globe are just off high single digits from where we were this time in 2019, and that is very well distributed. The US is up slightly. Everywhere else is down single digits with the exception of Europe, which is down about 15%. So that recovery that we thought we would see both in narrow and wide bodies through the course of '23 thus far is very much intact.

And our role here is to make sure we're keeping pace in our services business, particularly with respect to shop visits and other support we provide the airlines to make sure those planes are in the air, as they serve a very strong demand post-pandemic across the globe, all the more with China improving, and China as well is in that down single digits range versus where we were 2019 coming back yet again. Hopefully this time it will be sustainable. When we talk about tomorrow, that's really all about ramping with the air framers, and I'll leave the Boeing and Airbus discussions as to what their expectations are for '23, '24 and beyond. But we believe we are in sync with them, working very hard, particularly in the narrow body space. We've talked already about the leap increase that we see this year, both in the 1A for Airbus, the 1B for Boeing. That should be on the order of about 50% unit wise year over year. So you'll see sequential improvement through the course of the year.

There's a lot of work we need to do in the supply chain. Andy, we can get into that if that's of interest. But our view is there's no one supplier, there's no one commodity, there's no one part of the world that is challenging. It is broadly so, but that's our reality. We're going to control the controllable and work our way through it, all the while making sure that we protect and where we can, accelerate our investments in the future of flight, be it our RISE program commercially, be it programs like the XA100 to re-engine the F-35. This is a business that has led the industry for decades and we are continuing to invest very much with that objective in mind. So we believe in 2023, we should see profit in the 5.3 to 5.7 range cash up year over year. All in all, this should be a strong year for your GE Aerospace as we prepare for 2024 where GE Aerospace will be a standalone company.

I mentioned last week time well spent with the Vernova team. What we really are trying to do there is make sure that we lead the energy transition. And what that means I think has changed given events in Ukraine, given the Inflation Reduction Act here in the US. But those changes could not be a better setup in our view for GE Vernova. We continue to see our power business be a steady performer, strong cash conversion, particularly out of our gas power business. And I think some people had doubts about just a few years ago, but that really is the bedrock for GE Vernova and not only in terms of the cash flow, but frankly a lot of the operating lessons that have led the turnaround in that business as we look to apply the same in our renewables business. And that's really where I think the action will be for GE Vernova this year. When you think about the recovery that we need to deliver partially this year, more fully next year, we've got about a two billion dollar improvement in underlying profit performance. You'll see about half of that this year. You'll see the rest of that next year. You won't see much of it in the first half, though. A lot of the issues will continue to be challenging, especially in onshore wind. Onshore wind's probably about 75% of that two billion plus of profit improvement. What we're doing there is a number of things to improve the operating profile of the business from market selectivity to better pricing, better cost management. We took a charge in the third quarter to get our arms around some field performance issues, which we believe we do have our arms around even so today, and we're taking our fixed costs down as well in that business.

That's all good and proper, and that's before we start talking about the IRA. And we're encouraged by what we're hearing out of Washington relative to the finalization of the incentives there. We already see customer behavior evolving in ways that we think are incredibly constructive to what we'd like to do over time. We see that in the backlog for this year, the building backlog for 2024, and even some early backlog for 2025. So we'll need to play that through at a time when we know our grid business has turned profitable in the fourth quarter. We'll be profitable all of this year and as we get our offshore wind business off the ground. So all in all, there's a lot of work to do at Vernova, particularly in renewables, but it's work I think we have done before. It really is the playbook that we've run effectively in power. And given what we saw last week, I think we walked away feeling confident that the team is on a similar path in renewables.

And that really sets us up quite well for the Vernova spin, right? The plan there is unchanged. The goal is to launch GE Vernova as an independent company sometime next year. We've got to do three things as that takes shape. One, we've got to make sure internally we're in a position to do what we did with healthcare. It's a little bit more complicated frankly, with the renewables and power businesses, given their ties with Aerospace. But we know how to do that work. We have time. That won't pace us. Going to be very important to have the IRA rulings clarified, but again, I don't think that's going to pace us either, given what we're hearing out of the White House and out of Treasury. It really is on us to perform, and that's exactly where we would want things. So we'll update you later in the year as we move forward with respect to the Vernova spin, but the strategy and the plan very much intact. And when we get there, I think this story will be an even simpler story than it is today. We would anticipate even stronger results, and given what we've seen over the last year with healthcare, we have no reason to doubt that the separation will not only unlock, but frankly create more value, both at GE Vernova and GE Aerospace. So Andy, that's kind of where we are today.

Andrew Kaplowitz:

All sounds good, Larry. It's good for us to have our conference right after an operational review. I like that.

Larry Culp:

That's why we do it.

Andrew Kaplowitz:

Yeah, that's why we do this. So let me ask you about that in the sense that ... Just to sort of get it out of the way, you've got your guidance for Q1 still kind of intact, 10 to 15 cents cash better than 1.2 billion negative. Is that kind of where you still are in that range?

Larry Culp:

Very much where we still are. We haven't seen anything as we've turned the page here through seven and a half weeks to suggest anything otherwise. I think we're encouraged by the again departures and in turn, everything that triggers for our services business. The supply chain challenges that we've talked about are not only a new units dynamic, both commercially and in the military side, but it impacts throughput with our shop visits. So we're working through that as we have

Larry Culp:

... have really over the last 18 months. Really haven't seen much change in the outlook at Vernova. Again, back to power. I think we have been pleased with how stable the gas business has been, despite all the geopolitical ups and downs. So no signs of that framing for the first quarter changing at this point.

Andrew Kaplowitz:

So I want to get more into aviation in a second, but just stepping back, Larry, you talk to a lot of big customers. How are people feeling about 2023 in general? Obviously, people worried about recession, but aviation's doing well. So what are you hearing from your big customers about their spending plans?

Larry Culp:

Well, I want to be careful because this is the sort of comment that I could regret later. But when we are talking to the airframers, it's really all about how high and how soon and how well we can ramp from here. Not a trace of recession concerns. And I would share with you that in the conversations I have personally, in the conversations we have through our teams, the airlines are particularly bullish with respect to this year. And they, too, want to make sure we're able to support them as they put more planes in the air more frequently, to the extent possible.

Not suggesting GE Aerospace in any way is recession immune, right? But it just doesn't seem to be high on anyone's screen right now. And with everything happening with respect to the energy transition, again, whether it's the rapid reset to the generation mix in Europe that is underway, the return to growth in China, the Inflation Reduction Act here, people are really keen to make sure that they know how we can help them through that.

And particularly around onshore wind, we see customers very keen to make sure they've got a slot, they've got slots in line here. Because they don't want to be in a position where our capacity is sold out over the next several years and they are unable to access the incentives that really make or will make projects more attractive financially in the not too distant future.

So we continue to poke and ask around in terms of where we might have some of that creep. Now, when I talk to other CEOs who have more short cycle exposure as you do, you see more direct evidence of what could be happening. But right now, knock wood, we don't.

Andrew Kaplowitz:

You mentioned sort of getting in line a little bit. Is that kind of what you expected for this year or maybe a little better than you expected in terms of on the Vernova side?

Larry Culp:

I would say that what I reflect on last year, Andy, one of the things that we miscalculated was what would happen with the PTC. Right? I think our assumption was it could be a soft first half, but given how high a policy priority this was for the White House, it'll happen. And I remember vividly going back, going on vacation in August, thinking it's not happening. And then my phone rang, and in turn, everything played out as it did.

So we're in a completely different environment today. I think that what we're hearing from customers is really two things. One, we don't want you to chase, we're not going to chase the next level of performance. We've done that and it has not necessarily served the industry well. What customers are telling us, and it's music to ours, is they want to see more what we call workhorse products. They want to give us, and, frankly, competition, time to industrialize the products that are on offer. And that helps us from a cost perspective, from a delivery perspective, from a performance perspective, all the way around. So we embrace that change.

The other is that, with the view that the administration is fully behind the IRA, then implementation will exceed what played out around the infrastructure bill. This is coming. And they know that we and others have only so much capacity. We've had about 50% of the US market the last four years. We're number one here. We want to maintain that market leadership position. But we've been very direct with customers, we only have so much capacity. We'll work to expand that over time, but we want to make sure our margins and our cash performance are far better than they have been. So it's led to, frankly, a saner price discussion. But I think in their eyes, more importantly, we want to make sure we have those slots committed.

Andrew Kaplowitz:

Very helpful. And then I want to follow up on one more thing you just said on the aviation side. You talked about flight hours on the phone today. When you originally put in your forecast, China was improving, but we were just kind of coming out of zero Covid,. But it seems like it's accelerated a little faster. Those are my words, but you tell me from-

Larry Culp:

I don't disagree with your words whatsoever. I think our base assumption, and this was not in any way a unique house view, China would adopt a different posture probably in the spring. And clearly, our president, she did that far sooner, and we've seen departures recover.

Again, we've seen this before. There've been moments where departures in China, particularly domestic departures, have really rocketed back. We're down now, I think it was like 9% as of this morning. Versus the same time in '19. So that's, on the margin, very helpful here in the near term.

Now, I think what will play out in China is a more deliberate ramp from here. Everything that we see would suggest the Chinese want to avoid some of the congestion issues that we've saw both in Europe and in the US last year. That's understandable. But we'll be ready to do everything that we can to support the return to flight of the fleet in China.

Andrew Kaplowitz:

Yeah, no, it's helpful. I think one of the questions I had, you kind of answered, which is sort of the roadmap to the spinoff Vernova. But let me just ask you, what are you watching, as CEO, to make sure that you hit those three things that you kind of talked about? How do we, on the outside, know that we're on track?

Larry Culp:

Well, to some degree, you have to trust management.

Andrew Kaplowitz:

We always trust you Larry.

Larry Culp:

But if you think about the three work streams, we probably won't share with you a lot of the gory rewiring and replumbing to stand up Vernova on its own. Again, I think in part, because it's a lot of inside work, it's effectively what we did for healthcare. So it's work we know how to do. Carolina and I sit with the spin steering team every other week, and get into all the detail of what's required to make this happen. And as you would imagine, it's an incredibly complex and diverse set of work streams. I don't think that paces us.

With respect to the macro, I think we're helping policymakers understand some of the ways to implement the IRA. Right? We're trying be as constructive as we can. Again, I think the signals, politically, are such that this will move along at a good pace, so I don't think that paces us. And that will provide us and everyone else a little bit more certainty with respect to the operating context.

So I think it comes back, excuse me, to performance. So that's why we sat with the team as we did last week, right? And to really make sure that we are implementing the market selectivity moves that we've talked about. That we are in a position to smartly manage that limited capacity that we have. Striking the right balance with price and cost, limiting the SKU proliferation that really makes it hard to industrialize some of these products. Continuing to whittle at the fixed costs, all the while making sure that we are enhancing, truly enhancing the field performance, the availability of the fleet, the onshore fleet, so that that's a higher performing investment for our customers. And then we have less residual cost tied to that, to those units.

Andrew Kaplowitz:

Got it.

Larry Culp:

So, as we march through the year, Andy, that will really be the focal point of every discussion, every operating review with Scott and the team. Similar in the other businesses, but given that, again, three quarters of the $2 billion of profit improvement we need to deliver in Vernova over the 22 to 24 span, needs to come there. That's where most of our attention will be invested.

Andrew Kaplowitz:

Got it. So let me shift gears. I wanted to ask you about aviation. I've got a nice long-winded question, so drink, take your time. So you've talked about margins 18 to 19%, relatively flattish margins this year. Leap ramps up. Obviously, that dilutes margins a little bit. But we sat here, well, we sat at your investor day maybe a little less than a year ago, and I think you had talked about by the end of '23 [inaudible] you could do $6 billion in profits, and I think you're [inaudible] five and a half today. So maybe talk about sort of what's changed in that. And I think you mentioned supply chain too, so I'm sure that has something to do with it, but let's talk about supply chain, leave those [inaudible].

Larry Culp:

Yeah. Well, I think from a supply chain perspective, the environment isn't getting worse, in our view, but it's not getting better. That said, I do believe a lot of our lean and our decentralization work is helping us navigate the environment. Such that we had a better performance to commitments in the second half than we did the first half. It wasn't perfect. Our customers have probably shared that with you. But this is

Larry Culp:

Not one of these problems where you can just fire one silver bullet and be done with it, right? There's a lot that we need to do within our own shops in terms of staffing, that's less an issue today than it was a year ago. There's a lot of process improvement we're driving, not only in terms of just process yields in particular, lines, but in turn, how we signal each other within the GE network, let alone what happens with our suppliers and their suppliers. They have the same issues, be it labor, be it yields, because there's so much expertise that we've lost-

Andrew Kaplowitz:

Yeah.

Larry Culp:

... Through the course of the pandemic. But I really like the way that we are navigating that, right? A lot of, when we talk about Leap, a lot of that's rooted in just real problem solving. And given how intense this environment is, it's easy to yell and scream and finger point, but that never yields a root cause analysis, let alone genuine corrective action.

So whether it be in our own facilities or with suppliers, and even our supplier's suppliers, we're really trying to get past all the noise. Let's make sure we're clear on what that issue is. When we talk about pole, we talk about signals. Rather than have the machine just throw off orders, we're really trying to be much simpler, very much in a lean Toyota sort of way with our pulse systems so that we're only putting demand on our suppliers that we actually need.

That sounds simple, hard to implement. But particularly now, where they're dealing with scarce capacity, we don't want to ask for part A if we have enough, when we really need them to produce part B.

Andrew Kaplowitz:

Yeah.

Larry Culp:

Now, I'm sure for some, that sounds incredibly simple, but when you take the Leap, for example, the Leap A and the Leap B each have about 2,500 parts a piece, and only about 10% are common across the two platforms. So there's a lot to manage. It's not necessarily a level of complexity unique to GE, but that's what we're working our way through. Again, the environment will become easier with the passage of time, but we can't wait for that.

Andrew Kaplowitz:

Yeah. And Larry, are you finding it easier this year to get the talent you need? Is it becoming a little more available or is it still kind of a slog on that sense?

Larry Culp:

I wouldn't characterize it as a slog, right? If anyone knows a great welder or a great machinist, please send them our way. But that said, we're finding that it is a little bit easier today, and again, I think we're a little bit better in our recruitment as well.

Andrew Kaplowitz:

Yeah, got it. Okay. And then, maybe just opine on the aftermarket growth expected over the longer term, right? So I know John Slattery said aviation should grow in mid- single digits over the longer term, the investor day last year, but aftermarket-related growth has obviously been much stronger than that. So what do you think the risk is, with aftermarket growth normalizing after China reopening and such? And there's been a thesis out there that I've heard that retirements will ramp up as all the deliveries increase and airlines and their fleets with fuel efficient engines, and that could hurt aftermarket. What's your thoughts on that?

Larry Culp:

Well, I think that what we're seeing in turn, what is at the core of the airline bullishness right now is the view that there is considerable pent-up demand.

Andrew Kaplowitz:

Yeah.

Larry Culp:

That we will see not just in '23, but over time, right? Patterns of travel, patterns of flight have changed, and for the better, relative to the airlines. Time will tell, right, as to how true that is, which is why you might see us keep our top line expectations in check. We know we're going to be up in the aftermarket in aerospace this year, high teens, we'll call it 20%, right? So robust, and that's not in all likelihood going to then drop next year.

But let's play that out a little bit longer and see. I think retirements are a long discussed potential headwind, right, but underscore potential there. I mean, they will happen in time, but given, I think, where demand is, we're very well positioned to work our way through that. I think the real pressure that we're focused on, Andy, is with the introduction of the Leap and as the Leap ramps, both in terms of new units, but becomes part of the aftermarket, early on in the life cycle of the Leap, we will see margin pressure.

That's why we've talked about 15% earnings growth at aerospace this year, but margins on a percentage basis are likely to be flattish.

Andrew Kaplowitz:

Yeah, yeah.

Larry Culp:

So we'd rather be paid in dollars. We know we've got probably 250 basis points of headwind just in the OE side of the house from Leap, but all those shipments are seating the next 20, the next 30 years of strong aftermarket performance. Those are investments we ought to make every opportunity we have. Unfortunately we do, given the leadership position that Leap enjoys today.

Andrew Kaplowitz:

100%. So I want to make sure I get this over right, Larry, talking about aviation cash, which obviously is very important. And so, can you give us more color into the levers to help you generate more cash over time, right? Focusing on '23 and '24, I know you have higher profits, and-

Larry Culp:

Yep.

Andrew Kaplowitz:

... '23 obviously offset AD&A payments for example. You've got some increase to cash taxes restructuring. But talk about how you think about cash generation as you ramp up the engine deliveries to the OEMs. Does the better aftermarket help you at all if that happens?

Larry Culp:

Yeah. Well, as you well know, the aftermarket growth carries with it not only strong earnings, but strong cash and cash conversion of those earnings. So that's really the engining, pardon the expression, of performance. That's the algorithm as we look forward.

You mentioned AD&A, but there's been a choppiness relative to that cash line, given the timing of orders and shipments. But it really is a timing dynamic in our view, and I think we'll be much less a part of the conversation as we get into a post-pandemic world, so we would welcome that. You talked about some of the below the line dynamics, which helped cash clearly, but from a working capital perspective, there's still plenty of opportunity there. I think we've highlighted this in a couple of settings. We're deliberately going to bring in more inventory this year than we would otherwise, simply to make sure that we've covered our needs, given supplier performance, right?

So we're going to run heavy just to buy ourselves a little bit of insurance. But again, I think as things settle and we get better with our signaling internally and externally as a result of our lean initiatives, we should be able to bring those inventory levels down, increase those turns, and that'll be another lever for us, in addition to just the normal payable and receivable activity.

Andrew Kaplowitz:

Yeah.

Larry Culp:

To the extent that we can drive more linearity, Andy, in the way we operate through a quarter, not only will that limit how much inventory we need in a quarter throughout the course of the year, it will help us with respect to receivables for sure.

Andrew Kaplowitz:

Yeah. And just Larry, following up on that a little bit, do you think of, because when we were here, when we were at your Investor Day last year, I think Carolina said, "You can improve inventory turns by one to two turns. Each turn is $4 billion." A big number. So do you really get to tackle that maybe in '24 is kind of, I know you're going to tell me you're tackling it now.

Larry Culp:

Yeah.

Andrew Kaplowitz:

But how do you think about when that benefit could really start to...

Larry Culp:

Yeah. I'm not sure we necessarily, when you see a one turn pop this year or next year. But that said, a lot... Let me rephrase that. Everything that we're doing from a delivery perspective as we ramp will yield benefit as we think about improving inventory turnover from a multi-year perspective, right? To the extent that we're signaling better, to the extent that we're able to then shorten lead times, to the extent that we're pulling and not building the inventory between facilities with suppliers, that brings the water level down.

Andrew Kaplowitz:

For sure.

Larry Culp:

It's just harder to do right now. But again, the work we do today is going to yield benefit in that regard in '24 and '25, no doubt.

Andrew Kaplowitz:

Got it. And I want to open up to the audience in a second. Let me ask you one more question. So you mentioned this a little bit, Larry, but I think it's an important comment, the competitive dynamics in onshore wind.

Larry Culp:

Yes.

Andrew Kaplowitz:

Maybe talk about how you see it developing here over the next couple years, and the incentives for the players to be, cooperative is the wrong word, but-

Larry Culp:

Right.

Andrew Kaplowitz:

... For it to be a lot more behaved in terms of the market.

Larry Culp:

Yeah. This is webcast. Let's be clear, there's no cooperation.

Andrew Kaplowitz:

That's why I said, the wrong word.

Larry Culp:

Yeah. We are at each other-

Andrew Kaplowitz:

Wrong word.

Larry Culp:

... We're at each other's throats. That said, I think, when I listen to competition, when I look at their financial results, they sound a lot like we do and their financial results look a lot like ours, right? I don't think anyone is necessarily happy with the state of play currently, and that's not just manufacturers in an industry. I think our customers know. Be it a developer, be it a utility, that given the role that onshore wind has to play in a successful energy transition, you can't have the OEMs performing as we have a fleet.

Andrew Kaplowitz:

Yeah.

Larry Culp:

I think what you're going to see, I referenced this thing a few minutes ago, customers really looking not to push us necessarily to the innovation frontier, but they really want higher volumes of more reliable, more industrialized products. That's going to help everybody. Not only the manufacturers, it's going to help the customers as well, in terms of what their true needs are. I suspect you're going to see more disciplined behavior, right, is this industry, like so many others, begins to mature.

And the IRA only helps in that regard because we're all going to have a level of certainty that we never really had with the PTC. As good as the PTC was, it was often a sugar high for

Larry Culp:

... for a period of time. And we were waiting for it to be renewed or not. So given that we all have visibility now for the next decade, that coupled with the operating improvements I'm sure we're all pursuing, the different posture customers are taking, suggests I think that this industry's going to be healthier. And rest assured, our intent is to lead.

Andrew Kaplowitz:

Good to hear. Questions from the audience. Any questions? Okay.

Larry Culp:

Back to you.

Andrew Kaplowitz:

Back to me. Let me ask another question on GE Vernova. So you mentioned that Power in '23, pretty good. Things are pretty stable, but Power actually beat your profitability forecast from last year's investor day at $1.2 billion in profit. And you did have a very wide guidance for '23 back then, at $1.2 billion.

Larry Culp:

Yeah.

Andrew Kaplowitz:

So why can't you record something like $2 billion in '23 given the momentum that you're seeing in the business?

Larry Culp:

Well, I think that there is good momentum in Power, particularly in gas, and we're going to have an up year here from an outage's perspective. It goes up and down, but this will be a positive year in that regard. So I think we're pleased that they came in a year early relative to their high single digit margin target, prolific cash conversion. Cash on a dollar's basis will be a little softer this year given some project work that upticks this year versus last year. But if we can do better, Andy, rest assured, we will. But I think that guide for the moment is the one we feel most comfortable with.

Andrew Kaplowitz:

And you talked about leaning into energy transition, so there's been news on, for instance, GE Hitachi and small modular reactors.

Larry Culp:

Right.

Andrew Kaplowitz:

How do you think about these other businesses? We focus a lot on gas, but nuclear power conversion. Maybe talk about what you're seeing in these different...

Larry Culp:

Sure. Well, I think when you step back from the energy transition, that is our strategy. And frankly, it has been our strategy. The major positions we have are in gas and onshore wind. The policy climate could not be more different. It could not be better than it was 12 or 18 months ago. I mean, you've had a number of people who were quite vocal in positions of power critical of gas really pivot and see gas as part of the solution, that it's a very good thing for us given our installed base and the like, let alone what we're going to be able to do with that installed base over time if hydrogen becomes an affordable fuel source. And almost every customer today wants to understand that technology roadmap. So that's good. We've talked a lot about onshore wind. Offshore as well will play a role.

But then you look at our grid business, a business that some people suggested we ought to give away, a business that will be modestly profitable this year, whether it be in the HVDC space, grid automation. There are a lot of growth vectors that we're going to be able to pursue in grid and do so profitably. That's really taking root here on the back of the European, post-Ukraine changes in addition to what we're seeing with the IRA. You talked about small modular reactors. That's probably out there a little bit further, but we're the only provider of [inaudible] that can operate on the existing fuel network today. Not unimportant if you want to actually make this decade a decade of impact.

We're going to bring our digital business in, which is primarily a grid oriented business. I think just about every operator in the world is seeing how critical digital capabilities are going to be, not only in the face of weather events, but everything else they're going to need to do to deal with intermittent generation sources. We could talk a little bit about carbon capture and the like, but you can really see not only two big businesses, but around the medium and small opportunities that really are on point with respect to a successful energy transition. And I think the GE Vernova value prop to customers is basically we can do all this with you and for you. And in a distance it might look like a bit of a portfolio. Not every customer buys every product. But the path forward is uncertain. They want help. And by providing that help, we think we really set Vernova up if we're running the core operations well for quite a run here.

Andrew Kaplowitz:

So a few years ago we were talking a lot about liabilities with GE. Now, we can talk about assets.

Larry Culp:

Let's do that.

Andrew Kaplowitz:

You're out of Baker Hughes, you still have a significant stake in Air Cap and obviously GE Healthcare. So how do you think about monetizing them over time? Do you do it like you did with Baker Hughes? How should we think about it?

Larry Culp:

Well, I think the parallel with Baker, now that the sale is complete is that we did it in an orderly, thoughtful, shareholder friendly way, probably not going to get into much more detail than that. But rest assured, the intent is not to perpetuate an equity portfolio at GE Aerospace, which will be the business that takes on the corporate capabilities. There may be some things that we do in the quarters ahead, but fundamentally, the overarching objective is to make sure that those stakes are used to set up all three businesses now down to two in the strongest possible way.

Andrew Kaplowitz:

Got it. And then one last question from me. I've been asking all the companies this question, just curious your opinion. So what are the top two or three innovations, mega-trends, or structural changes affecting GE over the next five years? And are there any emerging industry trends that are perhaps being overlooked?

Larry Culp:

Andy, I'm not sure there are any that are overlooked.

Andrew Kaplowitz:

Okay.

Larry Culp:

If we elevate close to the heavens... The way I think about aerospace is that you have this post-pandemic boom, perhaps a transformed nature of travel that we're incredibly well positioned to be a part of. When we talk about shaping the future of flight, it's that plus being a part of the decarbonization of aviation. And that's really what we will be focused on for as far as the eye can see. Those are mega-trends.

We've talked about the energy transition. That may be the most important mega-trend of all. That's what the Vernova team gets up and thinks about every single day in every one of our businesses, large and small. And I think that's a pretty good setup for us. We talk about the balance sheet, we talk about operations, but to be so well positioned in those mega-trends, when you think about 3, 5, 10 years, you couldn't ask for more.

Andrew Kaplowitz:

So we do have a question now from the audience. Is it possible to take one more question? You okay with that?

Larry Culp:

It's your show.

Andrew Kaplowitz:

Yeah. All right. One question and then we're done.

Speaker 1:

Thanks for your time. So over five years, you've gone from being cash starved to generating cash. You restructured the portfolio. And I think you touched on it a little bit, but in terms of building capabilities three, five years out now that you're able to play offense, you talked a little bit about hydrogen at Vernova. Is there a buy versus build R&D? How do we think about reinvestment?

Larry Culp:

Well, you're right. We now have the opportunity to think about that, not only strategically, but with a forward-leaning, aggressive posture. I don't think it's either or. I think what you'll see us do is begin as we did primarily in healthcare, weigh in to some inorganic moves to compliment what we're doing organically. I think we've got an ambitious, organic R&D agenda at both Aerospace and Vernova.

There'll be some situations where I think you'll see us put capital to work to enhance our competitive position. But by the same token, I don't think either business has to fill a gap, fill a hole inorganically. So as we go forward, you'll see each board, I think, articulate more specifically the capital structures and the capital allocation policies for those businesses.

In the interim, I think what we want to do is make sure that we're building the capability to think strategically about those inorganic options, weigh the buy build trade-offs, be clear about how we might add value operationally, let alone cut smart deals financially that generate real returns for shareholders. That's a skill I have a little bit of perspective on. And you'll see us, I think, continue to build that out in both businesses as we have with healthcare successfully in the years ahead.

Andrew Kaplowitz:

I think we should end it there. Thank you very much, Larry.

Larry Culp:

Thanks, Andy. Thanks, everyone.