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General Electric Co Plans to Form Three Public Companies Focused on Growth Sectors of Aviation, Healthcare, and Energy- Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the GE Investor Update. (Operator Instructions) My name is Brandon, and I'll be your operator for today. (Operator Instructions) As a reminder, this conference is being recorded.

I will now turn the program over to your host for today's conference, Steve Winoker, Vice President of Investor Relations. Please proceed.

Steven Eric Winoker ***General Electric Company - VP of IR***

Thanks, Brandon. Welcome to GE's investor call, and thank you all for joining us on short notice. I'm here with our Chairman and CEO, Larry Culp; and CFO, Carolina Dybeck Happe. We'll spend about 15 minutes discussing today's announcement, then we'll move to Q&A.

Before we start, I'd like to remind you that the press release and presentation are available on our website. Note that some of the statements we're making are forward-looking and are based on our best view of the world and our businesses as we see them today. As described in our SEC filings and on our website, those elements may change as the world changes.

With that, I'll hand the call over to Larry.

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Steve, thanks. Good morning, everyone, and thanks for joining us. Today's announcement is a defining moment for GE. This morning, we shared our plan to form 3 independent investment-grade, industry-leading global public companies focus on growth sectors, aviation, healthcare and energy. We intend to do this by spinning off Healthcare creating a pure-play company at the center of precision health.

We'll combine Renewable Energy, Power and Digital into one business position to lead the energy transition, which will spin off after Healthcare. GE will then become an Aviation-focused company, shaping the future of flight. This plan is the result of a thoughtful, deliberate strategic process by our Board of Directors and senior management team. We're embarking on this exciting journey from a position of strength.

Over the last several years, our teams have done exceptional work, strengthening our financial position and operating performance, all the while deepening our culture of continuous improvement through lean. We've made significant moves to transform GE into a more focused, simpler, stronger high-tech industrial company. And as evidenced by our recent performance, our transformation is accelerating and delivering results. For almost 130 years, GE has leveraged its DNA of innovation to build a world that works -- solving the biggest challenges through our technological expertise, leadership and global reach. Operating each of these businesses as independent companies will enable them to realize their full potential, driving long-term growth and value for all stakeholders.

Moving to Slide 4. We plan to form 3 well-capitalized investment-grade companies with strong seasoned leadership teams. We're confident as stand-alone companies each will drive long-term value. Let me explain why. First is greater focus, which will allow these businesses to relentlessly prioritize where they can add the most value and continue to deliver for our customers.

Second is more tailored capital structures and capital allocation frameworks that are aligned with each company's distinct strategies and industry dynamics. This strategic and financial flexibility will allow them to invest more in existing and adjacent growth markets with new or complementary technology and capabilities. For example, in Healthcare, this might mean going further upstream into interventional and therapeutic modalities while integrating around a patient disease state to drive better outcomes and increase productivity.

Next is dedicated governance in the form of their own Boards of Directors, building deep domain expertise in their respective industries. From an employee perspective, we expect each company can provide more business and industry-oriented career opportunities and incentives, helping us compete more effectively for talent. And each will have the opportunity to attract a broader and deeper investor base, given each company's compelling investment profile, creating value over the long term.

Benefiting from all of these factors, each will be a simpler, stronger and more focused company. And each company is a current leader with global scale, talent and long-term customer relationships that have been built over many, many decades.

Moving to Slide 5. If that is the why this transaction is the right next step in GE's transformation, let me explain why now is the right time. Several years ago, we set out to improve our financial position and strengthen our businesses, and financial strength was our priority. In today's portfolio of businesses, GE is on track to reduce debt by more than $75 billion by the end of this year and is now on track to bring its net debt to total -- net debt-to-EBITDA ratio to less than 2.5x in 2023. The GECAS transaction that closed last week was a tremendous catalyst, providing approximately $30 billion in consideration.

We've also taken decisive action to derisk GE. We've stabilized insurance, mitigating funding risks with the capital contributions to date and focusing on operational improvements, such as our investment portfolio realignment strategy. For the GE pension plan, as we shared before, we do not anticipate any further funding requirements through the end of this decade.

We've also maintained strong liquidity, and we're operating with better cash management, driving lower, more predictable cash needs. To enable this, we've eliminated on-book factoring, and given the planned separations, we announced this morning that we're going to discontinue our remaining off-book factoring program that funded receivables across Aviation and Healthcare. The estimated free cash flow impact will be about $2 billion and we expect most of this impact in the fourth quarter of this year. Like the rest of discontinued factoring, this will be adjusted out of Industrial free cash flow.

Moving forward, we're committed to continuing to reduce debt as we stand up 3 well-capitalized investment-grade companies that are positioned to invest in growth. At the same time, the GE team also meaningfully improved our business's operating and financial performance, driven by the belief that people close to the customer can serve them best.

To that end, we shifted the center of gravity to our businesses, removing overhead layers and driving resources, decision-making and accountability out to the P&L level. And we scaled lean company-wide, driving better performance and in turn a better culture, keeping score, managing visually and in real time. These lean principles help us get the day-to-day things right that improve safety, quality, delivery and cost. I shared with you at earnings a couple of weeks ago about a Kaizen with our military team in Lynn, Massachusetts, where my group set out to improve first-time yields on mid-frame parts. Today marks 30 days out from that Kaizen, and our changes are delivering 100% first-time yields compared with 59% previously. That's but one example.

Added up across sites, teams and businesses, the results are real, driving consistent, sustainable free cash flow. And as they take root, they build, allowing our Board and leadership to spend more of their time and focus on breakthroughs. This stronger foundation gave us a running start for some headwinds outside of our control, including the COVID-19 pandemic. The muscles we've been building around ruthless prioritization, relentless customer focus and continuous improvement helped us manage severe uncertainty and move faster on our mission-critical work, keeping planes flying, hospitals operating and power flowing together with our customers.

GE has emerged as a company that's stronger, nimbler and more customer-centric. We're getting back on our front foot, playing offense with the recent inorganic growth plays in Healthcare as one example, and we're not taking our eye off of enhancing operational performance. We have headroom for more improvement in each business without exception. As these improvements take hold, we expect more sustainable, profitable growth and a lift in earnings, leading to stronger cash flow generation.

In 2021, we expect to deliver about $5 billion of industrial free cash flow at the midpoint, adjusted, of course, for the discontinued factoring for the full year. We now expect in today's portfolio of businesses to reach high single-digit free cash flow margins or more than $7 billion of free cash flow in 2023. Worth noting, even if you exclude Healthcare, we expect GE to achieve a high single-digit free cash flow margin rate in 2023.

Turning to Slide 7. Each of these businesses will be leaders in their own right. Shaping the future of their respective industries. Let's dive into how we plan for this transformation to materialize. We'll spin off Healthcare as an independent company, and we expect to complete this first step in early 2023. At the same time, we'll integrate Renewables, Power, and Digital into one business. Then in early 2024, launch this business as a new independent public company. Both spin-offs are expected to be tax-free to our shareholders. Following these spins, GE will be an Aviation-focused company continuing to innovate and lead the industry.

I'll serve as Non-Executive Chair of the Healthcare company upon the spin-off. I'll continue as Chairman and CEO of GE until the second spin-off, at which point, I'll lead the GE Aviation-focused company going forward. As previously announced, Pete Arduini will assume the role of President and CEO of GE Healthcare in January of 2022. Scott Strazik will expand his responsibilities and will be the CEO of the combined Renewables, Power, and Digital business, while John Slattery continues as CEO of GE Aviation.

Now I'll spend a little bit more time on each of the businesses. Starting on Slide 8. At Aviation, we're a global leader in aircraft engines, systems and avionics. Our engine value proposition across efficiency, reliability and life cycle economics is the most competitive and innovative in the industry. We have more than 37,000 commercial engines and over 60% haven't seen their second shop visit, a tremendous opportunity as the market recovers. In fact, we power 2/3 of commercial flights, illustrating how impactful this business is today and to the future of flight.

Our Military business, which has been a big operational focus has more than 26,000 military engines and servicing our vast global installed base keeps us close to our customers and able to anticipate their needs. The pandemic has really drawn a spotlight on this business. While our results have improved significantly, along with the broader market, admittedly, it's still early. We continue to use lean to run our operations better and with a lower cost structure. As the industry progresses on its commitment to halve carbon emissions by 2050, we're investing in lower carbon technologies, such as the CFM RISE program, where we're aiming to improve fuel efficiency by at least 20%.

Through the up cycle, no business is better positioned than GE Aviation to support our customers. Near term, we're focused on delivering top line growth, profitability and cash generation in line with 2019 levels. Long term, through the cycle, we expect market growth of low to mid-single digits with an operating margin in the high teens to 20% range, while converting more than 90% of our free cash flow.

With the industry's largest and youngest fleet, I'm confident our platform will generate value for decades to come. In addition, GE will be able to monetize any remaining stakes at AerCap and Baker Hughes as well as our stake in Healthcare, which we expect to be nearly 20%. These stakes provide us with substantial financial flexibility going forward. We will also retain other assets and liabilities of GE today, including our runoff Insurance business.

Moving to Slide 9. Our global Healthcare franchise is a leading equipment business complemented by higher-margin services, where we have a solid local capability that keeps us close to customers around the world. With 4 million installations worldwide serving more than 1 billion patients in executing more than 2 billion procedures per year, GE is at the nexus of most care pathways. Demand here continues to be robust, supported by powerful secular growth drivers. Our operational performance has led to higher growth, continued margin expansion and robust cash generation, which is enabling us to increase our future investments.

Our recently announced acquisition of BK Medical represents a step forward -- and as a stand-alone company, Healthcare will be even better positioned to invest both organically and inorganically to drive faster growth. Today and tomorrow, delivering on the future of Healthcare is about enabling precision health, integrated, efficient and highly personalized care. Making this a reality requires merging clinical medicine and data science by applying advanced analytics and AI across every possible point of the patient journey.

GE is one of the few companies with the reach, capabilities and relationships to do this. Long term, through the cycle, we expect market growth of mid-single digits with operating margins in the high teens to 20% while converting more than 100% of free cash flow.

Moving to Slide 10. As mentioned, we plan to integrate Renewables, Power, and Digital into a franchise that will play a critical role in solving the trilemma of affordable, reliable and sustainable energy. This business possesses a unique offering with the world's most powerful wind turbines and most efficient gas turbines, as well as technology to modernize and digitize the grid. And the energy transition represents the largest market opportunity for Digital with vertical market solutions in Grid and Power Generation. We've been intently focused on improving operational performance in these businesses.

At Renewables, we're navigating some industry headwinds, and we have more work to do to improve cost productivity. But we're bullish about the business' long-term potential with our new platforms, including the Haliade-X and Cypress, driving record orders. At Grid, we've been executing a turnaround through cost improvement and decreased turnkey project work. At Gas Power, we've made tremendous progress in stabilizing the business, delivering higher services growth, margin expansion and cash generation. A large part of this improvement is driven by lean, a playbook that we're extending to the rest of Power. And Digital, now $1 billion business with over 40% recurring revenue, is focused on improving profitability.

Looking forward, with roughly 1 billion people not having access to reliable power and energy demand only increasing, we must meet this demand while reducing greenhouse gas emissions. Our business is developing breakthrough technologies, enabling carbon capture and the combustion of carbon-free fuels like nuclear and hydrogen. And as a company generating 1/3 of the world's electricity, we're well positioned to help customers achieve their net-zero ambitions. Longer term, through the cycle, we expect market growth of low-single-digits with operating margins in the mid- to high-single-digit range, while converting 80% to 90% of free cash flow.

In all, this journey is the culmination, the hard work and dedication our teams have shown over the last several years. We're incredibly proud that our financial and operational progress will enable us to stand up 3 strong industry-leading global companies, each of them well capitalized with seasoned leaders to drive the next phase of organic growth and margin expansion. This, along with focused capital allocation, can further accelerate revenue, earnings and free cash flow growth at each company.

Stepping back, at GE, we've always had immense pride in building a world that works. We have a responsibility to move with speed, to shape the future of flight, advance precision health and lead the energy transition. The momentum we have built puts us in a position of strength to take this exciting next step in GE's transformation, enabling each of our businesses to realize their full potential.

With that, Steve, let's go to questions.

Steven Eric Winoker ***General Electric Company - VP of IR***

Thanks, Larry. (Operator Instructions) Brandon, can you please open the line? Brandon, can you just confirm? Folks, we're just waiting for just Brandon to come back on to admit people into the Q&A, if you can hear me.

If I could ask for your continued patience. I know I'm getting e-mails and texts from folks where I know you can, in fact, hear me. So we are just waiting for our operator to come through and make sure that you can ask questions. And I may take the unusual such step of asking the folks on the phone to -- and I see one of you to text me your question if you're unable to get through. So I'll give an example, while we're still waiting.

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

I could always ask you the questions, Steve.

QUESTIONS AND ANSWERS

Steven Eric Winoker ***General Electric Company - VP of IR***

I know. Yes. I know. And we're ready to go, Larry. So I'm going to start in the absence of something else on my list with who I have from text for Andrew Obin to actually who I see texting me right now. Andrew, why don't you text me your question, I will read it verbatim on the phone at this point. And I'll ask others to text and e-mail me their questions, and I will get in as many as possible since you can all hear me.

Here we go. So from Andrew, who's typing as quickly as he can, I might add. Historically, GE funded Aviation from the rest of the company through the cycle. Now you're funding it as a stand-alone entity. The question will be, how should we think about the stability of funding going forward? Why don't we start with that one?

Carolina Dybeck Happe ***General Electric Company - Senior VP & CFO***

Okay. So I hope you can hear me. Carolina here. So Andrew, thank you for your question. So I mean, we're talking about, first of all, the key principle that the businesses, we believe, are best positioned for success as stand-alone companies. But to set them up for success, it also comes with an investment-grade balance sheet and the companies will all be public and have access to capital markets in a focused way. So by doing that, we set them up to both operate and invest in their businesses.

And I mean R&D, sales or M&A and to be able to do so successfully through, I would say, the whole cycle, including downturns, and that's why it's important with these appropriate capitalization structures. Again, for very long cycle businesses, we talk about long-term product and technology investments that need to be sustained over time to keep leadership. And that is also why we're setting the companies up the way we do.

Steven Eric Winoker ***General Electric Company - VP of IR***

Okay, great. The next question comes from Scott Davis of Melius Research. He asks, will asset sales be on the table ahead of the spins, particularly pieces of Renewables, Grid or Digital?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Scott, I know this is a topic that has been close to a lot of your analytical work over time. We'll get a chance to follow up, hopefully, live later.

Scott, I think in terms of asset sales, there's nothing planned. None of the steps that we've laid out here are predicated on asset sales. I would reiterate, though, that part of the opportunity to further deleverage the company will come through monetizing the stakes as we have shared previously, both in Baker Hughes and in AerCap. We've also flagged this 19.9% stake -- retained stake in Healthcare. That will be something that we will also monetize over time as we set the balance sheet for the 3 companies and position each of the 3 companies to be on their front feet, able to invest in growth going forward.

Steven Eric Winoker ***General Electric Company - VP of IR***

Great. Thank you, Larry. From Nigel Coe of Wolfe Research. Can you confirm that you are raising 2021 free cash flow to $5 billion. If so, what is driving that? You're also being more definitive on 2023 free cash flow. What's driving that confidence?

Carolina Dybeck Happe ***General Electric Company - Senior VP & CFO***

Thank you. So let me start with 2021. When we talk about the $5 billion, that's the midpoint of our existing free cash flow guide. $375 million to $475 million and then adding back the $800 million of discontinued factoring from the first quarter. That gets you to $5 billion. So that's -- it's the same as we said at earnings.

We do have a change, though, and that is the high single-digit free cash flow margin. We are now saying that we will get there in 2023. And we're also saying that we mean that as bigger than $7 billion, just to be clear. So it's an important question. So let's take it one step deeper. If we look -- we've talked to you before about the $10 billion of op profit and how we see that as sort of the base to get to that high-single-digit. It's really all comes down to the profit in the businesses, right? And if you take Aviation business, we are seeing the commercial market starting to recover. We do expect to get to '19 levels by narrowbodies in 2023, widebodies by 2024.

Larry talked about our young fleet. I would say more than half of that fleet hasn't seen the second shop visit yet. So we're going to expect healthy shop visits as well, stronger utilization, military growing again and then also the cost actions that we have talked about in Aviation. And together, that will expand the margins to the high-teens. And we also talked about high free cash flow conversion. So that's the big Aviation to $6 billion.

The next one is really Healthcare. And in Healthcare, we've talked about profit between $3 billion and $4 billion. And here, we see new products having really, really strong demand. And then overall, the market, as you know, we have strong demand. And basically, you can see that also from our orders. So we have strong conviction that we're going to get there as well in 2023 because the top line growth, including the operational improvements that we're doing, as well as investing in growth, I should say, get us to that healthy OMX improvement year-over-year and to be there in 2023.

Power. So in Power, we're talking about $1 billion to $2 billion of op profit. And here, a couple of different parts. We've talked about how important Services is and how we're focusing on increasing the Services part here. Scott and the team have talked about Gas and how we're getting Gas to high single digit already. And then going forward, more and more HAs are coming online, so we expect that also to over time continue to grow Services.

Steam, we are in the middle of restructuring but Steam has a good path to getting there in 2023 and will also mainly be a service business then. So overall, we get the margins to high-single-digit.

And now Renewables. So with Scott's extended mandate also using, I would say, the same playbook as was used in Gas Power, now all Power, also going into Renewables. And here, it's a combination. We talk about continued operational improvements, right, on the product as well as how we serve it. And then on top of that, again, focusing on more and higher service penetration. We expect the U.S. onshore wind to stabilize. We expect to continue to see selective international growth, growing Offshore wind and then better Grid execution in the turnaround, also being an important part of the energy transition.

And finally, Corporate costs. We said less than $1 billion. You can see already from our guide for this year that we expect to be about $1 billion.

So all of that gives us confidence to get to more than $10 billion of profit in 2023. That also means that if you add back the D&A, we get an EBITDA of $13 billion to $14 billion in 2023.

Steven Eric Winoker ***General Electric Company - VP of IR***

Thanks, Carolina. There are a number of e-mails that have come in, in text. We have plenty of questions to assure everybody without operator assistance through the end of this call.

Larry, to follow up Nigel's question from Nigel. Are there barriers to getting the Healthcare spin done before 2023?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Nigel, I would say that as we look at the work to be done, it's probably at this point, a 12- to 15-month undertaking. So when we say early '23, I think that's the best time frame. If we can move more quickly, rest assured, we will. But we want to get it right. But let's keep in mind that we've got a relatively new leadership team in place, Pete Arduini, who will start 1st of January. Will be doing just that, right, as CEO. So we need to give Pete and company, the team time to get everything prepared. I couldn't be happier with the prospect of Pete coming in. Kieran has been a -- Kieran Murphy has been a tremendous leader of that business. But I'm more excited about Pete's leadership than I was the day we made in the offer to join the team.

So we'll move at pace, right? The other businesses in 2022 will be focused principally on improving our operating performance, but we'll be busy next year with Healthcare, continuing to grow that business, getting the team squared away and getting ready for the spin, really the following year.

Steven Eric Winoker ***General Electric Company - VP of IR***

Question from Joe Ritchie of Goldman Sachs. How should we think about GE Capital's impact to the capital structure going forward? With Long-Term Care and other assets, Baker, Healthcare stake in Aviation. What are your thoughts around cleaning Long-Term care as you stand-alone these businesses?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Well, I don't think, Joe -- thanks for the question. It's tough not hearing everyone's voices, Steve, but you're doing a great job. You're doing a great job.

I think, Joe, that relative to Long-Term Care, and that's the primary obligation that will stay with the Aviation-focused business. Our posture doesn't change. I think we're really pleased with the way that we've managed this runoff obligation, right? As you heard on the earnings call, the claims curves that were reset a few years ago continue to hold. I think we're doing a better job not only managing that portfolio, but also, frankly, running the business in terms of finding opportunities to raise premium as well as, frankly, managing claims smarter. So we'll continue down that path. If things change, we'll deal with that in time. But this is an obligation that we've run well, again, a runoff obligation, and we'll continue that posture as we move forward.

Steven Eric Winoker ***General Electric Company - VP of IR***

From Deane Dray, please expand on the deleveraging plan, more than $75 billion and now less than 2.5x by 2023. What is driving this? What are the key assumptions?

Carolina Dybeck Happe ***General Electric Company - Senior VP & CFO***

I can hear your questions through Steve's voice here. So let me talk about the deleveraging. So we were asked about the high-single-digit free cash flow just a minute ago. And I alluded that, that basically gets you to $13 billion to $14 billion of EBITDA in 2023. So of course, that's an important part of the equation since the deleveraging is about profit as well as the debt side. So you have one part of the equation.

If we look at the other part of the equation and that's on the debt side. So Larry talked about it this morning, how we went from $140 billion and how we now expect to have reduced by more than $75 billion by this year-end, right? And we've talked to you previously that the goal would be to go to less than $45 billion of gross debt. So basically, that leaves us with $15 billion, $20 billion to go. And that $15 billion, $20 billion to go, well, we have plenty of sources to use here. Larry mentioned a couple of them, the Baker stake, about $4 billion. The AerCap stake, by the way, now up to $7 billion. And then, of course, we also have the cash at hand and our free cash flow generation.

So that's how we get to less than $45 billion of gross debt. And that's the equivalent of less than $35 billion of net debt. So then if you take the $13 billion, $14 billion EBITDA and the less than $35 billion of net debt, that's what we are seeing happening in 2023, and that's how we get to our deleveraging target. So a clear path on our profit, on our cash and our debt reduction in 2023. And I would say, I mean, that's why we're here today talking about the next steps.

Steven Eric Winoker ***General Electric Company - VP of IR***

A follow-up question from Jeff Sprague. I think it's related to the last one. Jeff Sprague from Vertical Research. How should we think about the starting balance sheet ratios? Why hold the Healthcare stake in Aviation as opposed to total separation?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Jeff, I think what we've tried to share here earlier in the release and elsewhere is that we haven't made any formal fixed decisions about the respective capital structures of any of the 3 businesses. We'll clearly retain Healthcare within GE in early '23, which at that time will be a combined Renewables, Power business as well as Aviation. We're going to work through over the next year or so how we want to structure the Healthcare balance sheet to really find the optimal position for them. Obviously, with a bias towards growth. I think we feel very strongly and the agencies will weigh in here, I'm sure, in time, that we have a clear path for all 3 to be investment-grade.

And as we get to that second step, we're clearly going to be putting Power and Renewables out there. I think we know that, that of 3 is the business that will carry the least amount of debt with it as it leaves compared to the other 2. And then going forward, what will be the core GE business, the Aviation-focused business will have those stakes that are left at that time, both in terms of whatever is left at Healthcare at that point in addition, as we mentioned earlier, both Baker and AerCap.

Steven Eric Winoker ***General Electric Company - VP of IR***

Great, Larry. Thanks. From Josh Pokrzywinski of Morgan Stanley on stranded costs. It's early -- actually, yes, it's early, but how do you consider dis-synergies or stranded costs relative to those high-single-digit free cash flow margins?

Carolina Dybeck Happe ***General Electric Company - Senior VP & CFO***

Josh, thank you for the question. Maybe starting by what we're talking about as the transaction costs. So we've talked about that we expect to see a onetime cost of about $2 billion of separation costs. Those are the usual ones -- sort of the transition costs, IT, legal, audit, restructuring and so on. And then about $0.5 billion of tax costs part of this. What we also see is that standing at 3 public companies, we expect each of the companies to have around $150 million to $200 million of stand-alone costs per company. And if you then compared to where we are today, basically, we have a corporate of about $1 billion. Out of that, $600 million, $700 million is really functional costs. So that's to be compared to the 3x $150 million to $200 million. So basically, it's a wash on that one. So we don't see dis-synergies from this.

Steven Eric Winoker ***General Electric Company - VP of IR***

Great. Gautam Khanna from Cowen has a related follow-up question. How should we think about the respective tax rates of the companies? Any further ask about conviction of that separation cost number you just talked about?

Carolina Dybeck Happe ***General Electric Company - Senior VP & CFO***

So when it comes to tax costs, we need to work through the structures of each of the entities and then see sort of what the footprint will look like, and we'll come back then on the specific tax rate because it depends on which countries you're sort of profitable in and the structure and the setup. So we'll come back with more information on that once we get closer to the spin.

Steven Eric Winoker ***General Electric Company - VP of IR***

Pat Baumann, who works with Steve Tusa at JP Morgan, asks a follow-up question to your earlier question on the free cash flow guidance. Should we assume a linear trajectory to that roughly -- sorry, to that more than $7 billion in 2023 so that 2022 will be up from this year? Will -- in other words, will 2022 be higher than 2021?

Carolina Dybeck Happe ***General Electric Company - Senior VP & CFO***

Thank you. So I was talking about how we would get to more than $7 billion in 2023, and our jumping off point in 2021 is $5 billion, excluding all the factoring, right? What we've also said is that we're going to 1 column, 1 company. And as we do that, we expect to have important growth in free cash flow next year as well.

Steven Eric Winoker ***General Electric Company - VP of IR***

Okay. From Joe O'Dea from Wells Fargo. Why does Digital go with Renewables and Power. Can you talk about the revenue overlap versus adding the quality of the Digital profile to the energy business?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Sure. Well, I think as we shared in the prepared remarks, Digital today, what we call GE Digital, is over $1 billion in revenue. It sits at Corporate. But when you look at the component pieces, the biggest piece is our Digital Grid business. And I think I also mentioned that the other businesses are energy-related, particularly in and around power generation. So we call it GE Digital today for a host of reasons, but it is fundamentally an energy-oriented business. So it's an easy, natural decision as we take this next step to put it with the energy-related businesses.

There's some good non-energy-related businesses in there, and they'll continue to do what they're doing, which has been really, frankly, remarkable the last couple of years, but really an easy, natural strategic fit for Digital in that group as opposed to Healthcare or Aviation. We certainly have significant ongoing digital investments and activities in Healthcare and in Aviation but those are more geared toward those businesses and historically have always been there. So that path continues.

Steven Eric Winoker ***General Electric Company - VP of IR***

Great. Joe has a follow-up question, and Julian and I just got your text with 6 questions. Let me read that while Larry is answering this next one, and then we'll get to you.

From Joe, on the second question, can you please expand on the full potential of businesses and what's not achievable under the GE umbrella? Is unlocked potential more than cost management or top line growth?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Well, I think of it very simply. We've made a lot of progress, not only with the balance sheet but improving our core operations over the last several years. But I think as we've seen in so many instances, outside of GE over the last decade, spinning good businesses, heightens focus and accountability. I think there's no question about that. As someone who has been through this a couple of times shared with me recently, it just helps make everybody better.

I think the capital allocation and strategic flexibility improvements that we are out to get with everybody, Boards, leadership teams and the like, focused on all of the dynamics, the opportunities and the challenges in their respective industries will be a real positive. And again, I think up and down the chain from the Board to the team and including investors, that alignment that you get with pure-plays is really helpful.

So you put all that together on top of what we have been able to achieve. I think we feel strongly this is the right decision, this is the right time. And with what customers need from us, we can't afford to waste a day, which is why we're out first thing this morning with this announcement. And we're excited about it, ready to go.

Steven Eric Winoker ***General Electric Company - VP of IR***

Great. From Julian Mitchell of Barclays. The long-term through-the-cycle operating margin profiles for each business implies expansion relative to Q3 levels and the prior long-term guides, despite the incremental stand-alone costs. Does this reflect conservatism in the prior guide or better-than-expected progress with cost-out initiatives to date?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Well, I think what we're really trying to capture here is what we think each of these businesses are capable of as we move forward. So it's a combination of both, the progress that we've made and the opportunities that we see, as we move forward. And again, I think that as I've talked to a lot of people on our Board and elsewhere, there's no question that the heightened focus and accountability will help us put money to work where we should and take it out where we can.

Steven Eric Winoker ***General Electric Company - VP of IR***

So another question from Julian. What will the capital structures of the 3 companies be in terms of their debt and leverage? How should we think about that?

Carolina Dybeck Happe ***General Electric Company - Senior VP & CFO***

Julian, thank you for the question. Well, it sort of starts with where we will be as a total GE, and I talked about $13 billion to $14 billion of EBITDA and less than $35 billion of net debt. I would say that the amount of debt that the businesses can support depends on their sort of cash generation and the sector, but they also have different needs. And that's what we talk about when we say it needs to be fit for purpose. So if you start with Power and Renewables, you have the financials. So you know what that looks like. And we also realize that that's the business that can carry the least amount of debt across the 3 businesses.

Then we have Healthcare. I would say, based on the business profile and the financial outlook, yes, Healthcare can support more debt. But as Larry mentioned, we also want to be sure we leave enough room to grow here.

And then we have Aviation, clearly, the biggest cash generator and also the one that can support the most absolute debt because of that. But what the ratios will look like more exactly, we will come back to you closer to the spin. I would also say that the equity stake in Healthcare gives us more strategic flexibility here. So today, we're saying 3 investment grades and then exactly what that would look like, we will come back to you closer to spin.

Steven Eric Winoker ***General Electric Company - VP of IR***

Okay. We're actually out of time now that it's 9:00 at the top of the hour. I did get some additional e-mails in, no doubt from folks, and we will get back to you separately with those questions or answers to those questions.

Larry, any final comments that you would like to make?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Steve, well, first off, apologies for the technical difficulties. We appreciate everybody's perseverance and staying with us here. Hopefully, we got to a number of the questions on your minds, and we'll obviously follow up and be available through the course of the day. I just want to take a moment here to thank everybody, our employees, our partners around the world for their extraordinary work. It's really thanks to all of you that we're able to take this next step in our transformation. And I'd also like to thank our investors for their continued support. We're excited about what lies ahead. After today, we get back to work. Thanks, everyone.

Steven Eric Winoker ***General Electric Company - VP of IR***

Thank you.

Carolina Dybeck Happe ***General Electric Company - Senior VP & CFO***

Thank you.

Operator

And thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.