

Disclosure Information: Current and future holdings are subject to risk and past performance is no guarantee of future results. This podcast was recorded in December, 2020. This podcast should not be copied, distributed, published, or reproduced, in whole or in part. Information presented here is for discussion and illustrative purposes only and is not a recommendation or an offer or solicitation to buy or sell any securities. Securities identified do not represent all of the securities purchased, sold, or recommended to advisory clients. The views and opinions expressed by the Southeastern Asset Management and GE speakers are their own as of the date of the recording. Any such views are subject to change at any time based upon market or other conditions. Southeastern Asset Management and GE disclaim any responsibility to update such views. These views should not be relied upon as investment advice, and because investment decisions are based on numerous factors, may not be relied upon as an indication of trading intent on behalf of any Southeastern Asset Management product. Neither Southeastern Asset Management nor the speakers can be held responsible for any direct or indirect loss incurred by applying any of the information presented. **Further information regarding Longleaf Partners Funds, including the prospectus as well as performance and holdings information can be found at www.southeasternasset.com. Please read the prospectus carefully before investing to learn about the investment objectives, risks, charges and expenses of the Longleaf Partners Funds.** As of December 31, 2020, General Electric represented 6.0% of the Longleaf Partners Fund and 6.0% of the Longleaf Partners Global Fund. Copyright by Southeastern Asset Management, 2021.

Gwin Myerberg: 00:06 Hello, and welcome to the Price-to-Value Podcast with Southeastern Asset Management, where our global investment team discuss the topics that are most top of mind for our clients, from a Business, People, Price point of view. We at Southeastern are long-term, concentrated, engaged value investors and we seek to own high quality businesses, run by capable people, at a discounted price to intrinsic value or P/V. I'm Gwin Myerberg, Global Head of Client Relations and Communications.

Gwin Myerberg: 00:33 On today's podcast, Southeastern's Vice Chairman, Staley Cates interviews Larry Culp, Chairman and CEO of GE, which we own in our U.S. Large Cap and Global portfolios. They discuss how LeanLean manufacturing is much more than a process and how it can define a culture that is committed to continual improvement. We hope that you enjoy the conversation and that you learn as much as we did.

Staley Cates: 00:54 Welcome everybody and thanks for joining us today. We are very happy and we are very lucky to have Larry Culp on the podcast. Larry, as you most likely know, is Chairman and CEO of GE. He became CEO in October 2018 after joining the board in April of the same year. Before that, he was president and CEO of Danaher from 2000 to 2014. Danaher is sometimes not fully appreciated in consumer brand circles, but is legendary in the industrial and institutional investing worlds.

Staley Cates: 01:32 During his tenure at Danaher, both revenues and stock price increased about five-fold versus the market up about 100% during that period. Harvard Business Review named him one of the top 50 CEOs in the world. Larry was in Phi Beta Kappa at Washington College, where he was also chair of the board of visitors and governors. He got his MBA from Harvard, where he also was a senior lecturer in between his time at Danaher and GE.

Staley Cates: 02:00 I would add in a few unofficial things to some of those official bio items. In the days after the announcement that he would become CEO, GE went from about \$10.75 to around \$13.25. That two and a half dollar per share move on almost nine billion shares outstanding is a roughly \$22 billion dollar vote by the market on Larry's value as CEO.

Staley Cates: 02:25 The stock didn't hold those gains because shortly thereafter, worries about the power segment and about the balance sheet erased the move just for that quarter. But, those other factors don't change how powerful his arrival at GE was judged to be by Mr. Market. Also, when we were doing our own internal research on Larry, we talked to some Danaher executives.

Staley Cates: 02:46 We learned that not only did they love him, but a bunch of them at Danaher were buying GE stock, which to us was the ultimate tribute from his prior team. And finally, I loved Larry's comments when he joined. Most CEO's will make their initial quotes about joining a new company full of platitudes and promises with plenty of ego mixed in. By contrast, Larry's quote in the GE

release was (and I'm slightly paraphrasing maybe one sentence)

Staley Cates: 03:13 "We will be working very hard to drive superior execution. We have a lot of work ahead of us to unlock the value of GE. I'm excited to get to work." So, I'd say the main takeaway was work. So welcome, Larry, and thanks for being here.

Larry Culp: 03:29 Staley, thank you. That was a very kind introduction. I'm glad to have the opportunity to visit with you this afternoon.

Staley Cates: 03:37 Well, we will obviously talk about GE and the investment merits, but the focus of today's conversation is on Lean manufacturing or the Lean production system. And to us as researchers, Lean is a fascinating topic and it applies to a lot more than just GE. It has roots going back to Henry Ford, and to Toyota in Japan, and Danaher's famous version was DBS. So, this is an incredible opportunity to learn about it from one of the greatest gurus.

Staley Cates: 04:04 So Larry, let's start there. Everybody has heard different versions of Lean being adopted by industrial companies, but what is your definition of Lean?

Larry Culp: 04:16 Well, Staley the definition that I like to use to start any Lean conversation is one I developed in trying to bring order to a lot that sits under the Lean umbrella. It's four simple words: *common sense vigorously applied*. And I really mean that. When you get into the core of Lean, it really is common sense and, in a business context, I would argue even more broadly.

Larry Culp: 04:51 Certainly for me, everything that I've learned over time about Lean has its roots in the Toyota Production System, but Lean today, maybe we'll get into this later, is much more than just a manufacturing tool kit. It really is, I think, a comprehensive way to run a business and ultimately to shape a culture. But at its core, I think there are three fundamental and important principles:

Larry Culp:	05:21	One, a maniacal focus on the customer; two, waste elimination at every turn; and three, what the Japanese call Kaizen or this commitment to continuous improvement that never ever ends.
Staley Cates:	05:43	Sometimes it's described as a culture, sometimes it's a process. It may be both. Where do you come out on that? And what would be some examples of that from GE?
Larry Culp:	05:55	Well, I'm a believer, Staley, in that you just don't wake up and say I want to change a culture or I want to take this culture from this set of attributes to another. Culture is really a function of the people you've put together and the way you work over time, so when we talk about Lean at GE, it very much starts with using the tools and applying the principles in the way that we work day in day out.
Larry Culp:	06:27	And we do that very much with business results in mind. Safety, quality, delivery, productivity, right on down the line. So, we use the tools not to use the tools. It's not process for process's sake, but rather to drive business results and to do so sustainably. And guess what? Over time, when you work in this way, and I have seen this in 25 years of data, and I've seen it begun to take root in two short years at GE, you begin to shift a culture.
Larry Culp:	07:07	One thing, for example, that is fundamental to good Lean is problem solving, but it's hard to solve problems you do not acknowledge that you have. So one of the values we talked about early on at GE was transparency. Put the good and the bad on the table, we can handle both. We'll celebrate the wins, but we've got to deal with the misses. And that was frankly a bit of a cultural shift. I didn't think I could necessarily come in and say, be more transparent.
Larry Culp:	07:47	I think the way that we're getting there is through the application of a number of these Lean tools, problem solving in particular, and really helping everyone see that it's okay to have a problem. In fact, great

companies eat problems for breakfast, but we need to systematically get to the root cause and really be aggressive in putting together countermeasures or action plans to deal with those.

Larry Culp: 08:18 And I think over time, what you're seeing today with a number of the GE leaders is a greater level of transparency because we're working in that fashion, rather than that being just a cultural attribute I've asked the organization to adopt.

Staley Cates: 08:35 So when you describe those things, they of course make total sense, especially in retrospect, but at the time, how do things get otherwise? Is it just bureaucracy and politics or what do you find are the biggest problems in the first place that this seeks to address?

Larry Culp: 08:56 Well, I think that in a number of organizations over time, messengers have gotten shot and word gets around that senior management can't handle bad news, and when that's the case, bad news gets buried. I'll tell you a quick story. I remember an early meeting at GE. I had heard through other means, prior to going and visiting with the business, that we had a situation that was just completely sideways with a customer.

Larry Culp: 09:42 So I wasn't being disingenuous, but there was an opportunity during the course of the meeting where I could actually ask folks in the flow of this meeting, "how were things going with this customer?" And the poor fellow who was being asked the question, several layers down the org chart, you could tell that he was absolutely mortified. To his credit, he told me exactly what had gone wrong and what he was doing to fix it.

Larry Culp: 10:12 And you could see people in the room in the brace position, right, unsure as to how I was going to react to what was frankly an embarrassing story. I embraced the guy, not physically, but literally for being a truth teller, for recognizing an issue, being honest about it, and being proactive and trying to address it. I can't do enough of that. I can't have my leadership team do enough of that.

Larry Culp: 10:40 But those are the sorts of things that I think make sure that bad news travels fast and that ultimately you really create a problem solving culture.

Staley Cates: 10:51 How did this grab you personally, like on your own path? Was this already in play at Danaher when you got there or did you help implement this? And did you know it before or after taking that job? How did this kind of become part of your DNA?

Larry Culp: 11:09 Well, Staley, you mentioned I have an MBA. I was in business school in the late '80s, and if you go back to the late '80s, U.S. manufacturing was basically declared dead. Either the Japanese or the German model was going to supplant U.S. manufacturing and we needed to change. So I had heard a little bit about Toyota back then, but not enough to really dive in deeply.

Larry Culp: 11:41 I went to Danaher in 1990. Danaher, at the time, was one of the first, if not the first company to bring from Japan, to bring from Toyota the real TPS, the Toyota Production System masters into our factories in a very hands-on way to help implement a number of these Lean principles, literally reconfiguring manufacturing floors overnight to drive single-piece flow in order to eliminate waste to improve quality and delivery outputs.

Larry Culp: 12:16 So we were working with the best of the best. We had a routine where we were doing week long "President Kaizens," where the Presidents of the businesses work on these teams on the shop floor, applying these tools and driving improvement. I had an opportunity to participate in some of those, but the penny really dropped for me when I went and participated in a similar event in Japan building air conditioners for a week.

Larry Culp: 12:45 It was just one of those moments where it all came together and I could see how powerful this was. For us, it was still the Danaher production system, not yet the Danaher business system, but that's when I think that the hook was set for me.

- Staley Cates: 13:02 And then what did you see as you arrived at GE both, really this is a little sidebar to Lean, but I'm curious some of the different drivers that made you want to take the job and thank goodness you did take the job, but also what is you find in terms of Lean or lack thereof when you got there?
- Larry Culp: 13:21 Well, I could go on and on, I guess. I think it was August of 2018. I went to Atlanta, I was a Director. I was on vacation, took a day and sat with the GE power team, and this was a business that clearly at the time was the focus of a lot of internal and external criticism, not well understood. I was a new Director. I said, "I'll go down, I'll dive in and take a peak."
- Larry Culp: 13:51 I walked out at the end of that day excited because so much of what ailed us, in my view, was self-inflicted and there were just a number of things that I could see that we could do. I flew home trying to think through how I would brief my board colleagues and how I might help management with that. So as the board dialogue that summer played out and the board came to a view that we needed an experienced CEO, that trip weighed very heavily on me.
- Larry Culp: 14:31 I said no the first two times the board asked. I agreed the third time because it was a big decision for me to get back into the game full time. But despite the criticism, despite where the stock was, all of that, I could see that this was a company with tremendous people and terrific assets that in many respects had control of its destiny if we just applied some of these Lean principles. It wasn't too long after that, that I made one of my first plant visits to our gas turbine facility in Greenville, South Carolina.
- Larry Culp: 15:13 They had done a little bit of homework on me. They knew I was a bit of a nut with respect to Lean and they showed me a manufacturing cell they had put together using these Lean principles and it was a pretty good effort. But what really struck me about that, Staley, was here we were in 2018, visiting a GE facility, one of the biggest, most important GE manufacturing facilities, and

we were just starting to apply tools I had seen for the first time back in 1990.

- Larry Culp: 15:48 So on one hand, I was thrilled that there was that much opportunity, but on the other hand, I was puzzled. How can that be? Well, what was really neat, once I went in that fall as Chairman and CEO and started to talk about how Lean would help us move forward. There were a lot of Lean practitioners who literally came running down from the hills and said, "We used to do this. I know how to do this. Let me help."
- Larry Culp: 16:20 We had a host of people at GE that had 10, 20, 25 years of experience who I think are thrilled to have a senior leadership team knowledgeable and committed to using these principles, these tools to help propel our performance forward, and they've just been wonderful team members. We clearly have brought in a number of other Lean experts to help us, but we really had a strong core that I don't think anyone had fully enlisted in the battle. We certainly have at this point.
- Staley Cates: 16:55 Well, speaking of that, I was going to start to go into some of the details on the principles, but staying with that theme, that would be one of them on teams and employees, so sometimes we'll read about this in the context of teams doing this and that. I wondered how much of this is team-based versus, I'm sure you're also trying to instill every employee being part of it, everyone being listened to, the best ideas are going to come from the most in the weeds. But what is the balance between the specialty teams and kind of instilling this in every individual employee?
- Larry Culp: 17:37 Well, Staley, it's interesting you say that. I had a blog post here recently where we talked about words, the importance of words, and some words that frankly fit the GE of today and the GE of tomorrow better than the others. And we talked about substituting "we" for "I". That to me is incredibly important here because business is a team sport. There's very little that we do at GE that matters that we don't do together.

Larry Culp: 18:15 When you get into some of the core fundamentals of Lean, one of the ideas, one of the words that you often hear is "gemba." The place where the real work gets done. It's a Japanese word, that's my translation. You go to gemba in a manufacturing facility or at a customer site to really listen and to observe those closest to the work. In doing so, you learn a lot if you know how to ask the right questions and if you know how to see where the opportunities are.

Larry Culp: 18:51 And of course, that really galvanizes an organization to see everyone looking to serve those on the second shift and to serve those who were closest to the customer. That's been a critical part of the Lean transformation so far at GE. Now we have to do that, obviously, with the team that's in the boardroom. I have to do that with the senior leadership team, the CEOs, and the functional leaders.

Larry Culp: 19:22 The more we do that at every level of the organization, I think these Lean tools and principles that we're talking about become that much more impactful. None of us can do this in isolation.

Staley Cates: 19:35 Can you talk more about getting them on board? Is that pretty much taken care of by the act of inclusion and asking questions? Or what else happens to get people on board? Do you change a lot of incentive systems and then provide training? What are all those various pieces of getting everybody on board?

Larry Culp: 19:59 Well, Staley in my experience (and I don't think GE has been all that different), when you begin the journey down this road, you tend to encounter three types of people. Forgive me if this is a gross simplification or a bias on anybody. You've got one group that I will refer to as the lemmings who don't know anything about Lean, but who stand up and cheer because that's the politically correct thing to do. They will follow, but they follow blindly and that's not necessarily all that helpful.

Larry Culp: 20:34 There's a second group that's really unhelpful. It's the group I call the Heisman Trophy winners. All you get is

the pose from the trophy where you get that forearm shiver. They want nothing to do with that, and we joke about those people. They don't understand much about Lean either, but they're convinced it has no application to what they do or their business. You don't really have time to convert them.

- Larry Culp: 21:01 But the third group and the group that's most important and typically the largest in any Lean transformation is the group in the middle. All I ever asked from that group is for an open mind and a little bit of time. Because when you get past the training and you get into the application of using these tools in your daily work, it's hard not to begin to see how you can eliminate a little bit of waste, do something a little bit better, and perhaps a little bit more quickly.
- Larry Culp: 21:34 That begins to turn the flywheel so that group in the middle ends up going from being open-minded to being, not only knowledgeable, but committed. When we would acquire a business at Danaher, we would typically tell a leadership team, "Give us a year," because it really takes the full year of going through the process of running a business to see the method in the madness. But once you hit that point, then you're off and running.
- Larry Culp: 22:08 A lot of the GE business is taking a little bit longer because it's a different setup than an acquisition, obviously. But two years in, I like the gathering momentum that I see in a lot of places at GE. I was in that Greenville, South Carolina facility, for example, just a couple of weeks ago, Staley, I had to peel that group off the ceiling. This was a group that was sheepishly talking about their first Kaizen event two summers ago.
- Larry Culp: 22:41 And now they were regaling me with a number of improvements that I couldn't have foreseen even a year ago when I took all the GE CEOs and spent a week in their facility. The flywheel in Greenville is moving as we move forward, we want to do that everywhere all around our company. I think we can.

Staley Cates: 23:07 On elimination of waste, you mentioned that a couple of times. Can you talk more about that? Because the way I see this from the outside, sometimes that's raw materials, but I think if I understand correctly, this would apply every bit as fanatically to people not wasting their time. But can you talk about the different layers of that?

Larry Culp: 23:30 Well, waste comes in many forms, right? It can be work in progress inventory or it can be queue time ahead of a process. You'll get a kick out of this perhaps. We actually count words in our prepared remarks for our earnings calls. Now you might think, gosh, that sounds silly. We want to be efficient with your time when we're on those earnings calls, and that's one way to actually force ourselves to be as concise and as efficient while still being as transparent as possible.

Larry Culp: 24:07 So there are a number of tools in the Lean toolbox like a value stream map that allows you to systematically look at a process soup to nuts, if you will, Staley, so that you can then bore in and see where an individual or a piece of equipment is idle. And how do you go drill the reasons why and eliminate that form of waste or any other? And in GE, because we have such large scale businesses, over time, we have developed a number of very strong functions.

Larry Culp: 24:51 It can at times operate in isolation, so we optimize functions sometimes with the expense of optimizing the enterprise. So that horizontal look at the business is one of the things we are doing, and in the course of that, identifying waste, and now we're working hard to wring it out. Sometimes that'll be a cash benefit, sometimes it will be a cost benefit, and other times it might just reduce cycle time, so, we're faster and more reliable out the door at a repair depot, for example.

Staley Cates: 25:27 How about supply chain, like how much as you get into the external, not just the internal? How much of the supplies to the supply chain and what are the biggest challenges and opportunities there for GE?

- Larry Culp: 25:41 Well, I would say that most companies start a lead transformation in the supply chain in part, just a reflection, I think, of the genetic code that links all good Lean efforts back to the Toyota Production System. It's wildly important, certainly at GE, because you have so many touches again, around safety, around quality, delivery, productivity, and inventory. So, it's cost and cash benefits.
- Larry Culp: 26:13 Certainly for us, if you look at our inventory turns, even the way we tend to capitalize our operations, I think there are a host of opportunities to turn our inventory more quickly and to spend less capital while still investing in the future through the application of Lean. It's also a great place to start Staley, any Lean transformation, because operations, supply chain, and manufacturing by its very nature is tangible.
- Larry Culp: 26:45 You can go out and learn these tools and begin to apply these tools as I did in Japan building air conditioners, where you can touch it, you can see it, and you can smell it. I just think those real time feedback loops accelerate ones understanding of the application of Lean, but, I think it's a real mistake to stop there. Again, I learned a lot just in our transition at Danaher, from the Danaher production system to the Danaher business system, how these tools and principles really have enterprise-wide application.
- Staley Cates: 27:26 So can you take that line of thought further? First part being, how does this apply? How do these principles apply to services and to non-manufacturing? And then secondly, can you kind of talk about those as they relate to your own segments at GE? Some of which, I mean you cover really all these things, some manufacturing, some service, and some non-manufacturing.
- Larry Culp: 27:52 Sure. Let's take services for example. One example that comes immediately to mind is the on-time installation work that our healthcare team has been doing. If you look over the last couple of years, our on-time performance with respect to installing a new piece of imaging equipment at a hospital exactly when the

customer has requested it hasn't been perfect. Let me just put it that way.

- Larry Culp: 28:22 So we start by saying, with that maniacal focus on the customer, and what they value most, this is one of the critical few we need to get right. Let's look at the facts, let's understand what works when it works and why we miss those target dates. Drill to root cause and then begin to understand the process improvements that we can put in place to more systematically install on time.
- Larry Culp: 28:54 And if you look at the charts that I would see in an operating review with Kieran Murphy, our healthcare CEO and his team, you can see that month by month, we have been making small, sustainable improvements in that. More importantly, we really understand when we fall short, why that's happening. So we still have a ways to go before we're perfect in that regard, but the team has developed a real rhythm from the senior management level all the way down to the field service organization to begin to improve and do so sustainably.
- Larry Culp: 29:31 So I'm excited about that. Another quick example is, you know Staley, GE is a company that tends to be back-loaded in quarters and back-loaded in the year relative to a lot of our operations. And some of that's just the nature of big ticket, long cycle businesses like the ones we're in, aviation, power, renewables, healthcare as well and in certain places. But as we've gone in, we've said those quarter-end, year-end, sprints are not good in most ways.
- Larry Culp: 30:09 If there was a way we could begin to level load our path through a quarter, our path through a year, there's benefits to the customer, there's benefit to the team, and there's benefit to the shareholder. So why is it that we have those pitches at quarter end? How do we drive more linearity? And just in something as simple as collections, Carolina Dybeck Happe, our new CFO who came in this year has been working with our finance teams to really just look at the linearity of collections.

Larry Culp: 30:41 And we can see now more of our cash collections coming in the first and second month of the quarter. Not because we're discounting, not because we're muscling, but really trying to understand the process elements of why that has happened and those things that we can redesign and re-engineer so that we have a bit more linear flow. So those are those sorts of examples in services, even in finance, of these Lean principles that I think have real application. It will generate real value at GE over time.

Staley Cates: 31:17 And then as you've gone to different plants or segments or full companies, what are the worst mistakes or downsides or negative unintended consequences that you've seen and learned from in implementation of Lean?

Larry Culp: 31:33 Well, a lot of mistakes come to mind, Staley, many of which I know first-hand. I would say, I think the most common mistakes CEOs make is thinking that they can catalyse a Lean transformation by hiring a consultant or somebody who's worked at a benchmark Lean company, and that they can delegate it and basically inject something into the middle of the organization.

Larry Culp: 32:07 I think really Lean transformations need to be led from the top. I just don't know of any other way to do it because the organization, most organizations, can figure out whether something is a flavor of the day type of initiative that will soon pass, or a way of life, and it's really the latter construct that we're trying to implement at GE. I'd say down in an organization, one of the mistakes that I've seen is that people see the process orientation that I've been referencing.

Larry Culp: 32:45 They get so excited about that, they lose sight that the process is not the objective. The process is the way by which we deliver and deliver sustainably, the way we improve over time, but they can become so focused on the process that they lose sight of the business objectives and the results that we're trying to drive. So you want that process zealotry, but it needs to be calibrated and focused around the things you're trying

to do with the business, because process in itself is not the goal.

- Staley Cates: 33:22 And then with all the success that you've had and that other Lean practitioners have had, and it's not a new hidden thing anymore, so it begs the question, why is it not more commonly used? You're talking to CEOs and business operators all over the place. Why is this not more broadly pursued or further?
- Larry Culp: 33:46 Staley, I gave you my shorthand I think when we started, Lean is common sense vigorously applied. It is common sense, but it's still hard, and again, this is a multi-year effort I think in any organization, large or small, that has to be led from the top. And I just think some folks will hire a consultant and have a few brush fires burning, but it won't be a holistic approach to running the business.
- Larry Culp: 34:22 I think others will give it lip service in the hope they can get a Lean multiple on their stock as opposed to driving results that in turn might warrant a premium multiple. I'm sure there are other explanations as to why a lot of people mouth the words, but few do it really well day in, day out. But those are my theories.
- Staley Cates: 34:51 And speaking of others, who else do you respect the most in implementation of Lean? It's like, who's your favorite child?
- Larry Culp: 35:01 After 25 years, it's hard not to look back and hold my old mates at Danaher in very high regard. I couldn't be more proud of what they've been able to do. You've got a new CEO there, Rainer Blair, who really came in mid-career and developed an excellent command of this operating approach. And obviously it's deeply rooted in the organization. I don't think there's a CEO alive that has Jim Lico at Fortive's command of how all the pieces fit together and just drives it with great passion day in, day out.
- Larry Culp: 35:46 But you find Lean leaders all over the place. I had a wonderful opportunity, not that long ago, to go to the

Pentagon and meet the Vice Chief of Naval Operations, Admiral Bill Lescher. Admiral Lescher's leading a Lean transformation in the US Navy and to sit there and compare notes, he was trying to benchmark what we've done. I was going to school on what they're doing there.

Larry Culp: 36:18 So, in the spirit of continuous improvement, you can usually learn from almost everybody if you're open-minded. But I'd say my old mates at Danaher and at Ford, but I also really liked what Admiral Lescher's doing at the Navy. So those are three that are at the top of my list today.

Staley Cates: 36:39 And then for us, we are just pencil pusher, financial analysts on the outside, we can't see at the plant level and we can't see some of the most important metrics, so for where we are, just getting public quarterly financials, what are the metrics we should track? How can we best measure the progress and the success of this from the outside?

Larry Culp: 37:02 Well, Staley, I think at the end of the day, since it's not about the process, but about the results, real organic growth, operating margin expansion and free cash generation to me are really good ways every 90 days to see if these approaches, these tools, are being applied with effect. And you've heard of course, a lot of what we're focusing on at GE, and that is improving our cash generation.

Larry Culp: 37:41 And again in a whole host of ways, be it working capital, reducing capital expenditures, quickening the pace of receivables collections, the elimination of waste and all its form, we could regale you with a lot of the detail, but at the end of the day over time, if we're not generating better cash, if we're not getting closer to that ambition of high single digit free cash flow yields, then it's all for naught.

Staley Cates: 38:15 Well pivoting away from Lean and just for a few questions while we have you on GE more broadly. We've talked about some of the changes you're leading with respect to Lean, but as far as just anything else on

culture and how the business has managed, what would you say are the biggest changes you've implemented?

- Larry Culp: 38:36 Well, I think that the biggest change that is underway is this movement of the center of gravity from corporate to the businesses, and not just the businesses in the form of our four industrial reporting segments, but the 30 some P&L's that constitute those segments. We're really trying to make sure that P&L by P&L we have clarity as to strategy, budgets, the operating plans, and certainly the org plans as well.
- Larry Culp: 39:17 With the view that from the bottoms up, if we manage each of those businesses better, GE as a whole is going to be a stronger and better performer. Alongside that is the movement away from a focus on the benefits of scale in exchange for the benefits of focus, and that's a tough one for some at GE who rightly understand that given our unique scale, there are things we can do that a lot of other people can't.
- Larry Culp: 39:54 We want to preserve as much of that as we possibly can, but the focus, business by business, on discrete markets and customers to me is critical. We can focus more in that regard, and that's why we're moving the center of gravity toward those 30 some P&L's.
- Staley Cates: 40:13 What would you like to say about GE in three to five years, or have others say about GE in three to five years?
- Larry Culp: 40:21 In three to five years Staley, I think if folks are talking about GE in the present tense and in the future, that would be a powerful dynamic for us. There's still a good bit of commentary about the past, and we're just looking forward every day. But if we're able to do what we've talked about here, a consistent high performer, particularly with respect to free cash generation, doing that in a sustainable way with a culture that captures the values and the attributes that we've talked about. I think this team would be very proud of that progress over that three to five year timeframe. And I think we can do it.

Staley Cates:	41:14	Well, these days I would be remiss to not ask about COVID, and how you've managed through that this year?
Larry Culp:	41:22	Well, Staley, I'm sure like everybody, this is a year that cannot end soon enough. We'll all be working through COVID I'm sure for a few more months in 2021. I think that we were quick to say this is going to be wildly disruptive to our business, particularly the two businesses that were really positioned to carry us through 2020, aviation and healthcare. So we've just said, let's embrace that reality. Let's first and foremost make sure we're taking good care of our people.
Larry Culp:	42:00	Safety first, always. We needed to adjust our cost structures to protect the company. Fortunately, we were well along the de-leveraging effort. We received that \$20 billion check for the sale of our bio pharma business, ironically to my old mates at Danaher, but all the while looking to do what we could with our customers. Be it in the acceleration of ventilator and patient monitor volumes in healthcare, working with the airlines to create a safe return to flight program, and all the while continuing to push on the turnarounds at both power and renewables.
Larry Culp:	42:52	And what was really interesting and I think impressive to me, Staley, over the course of the year, is once we worked our way through the second quarter, the GE team, which is a resilient battle tested gritty team, said okay, so this is what a pandemic looks like. Let's get back to business, and by mid-year, we were in a rhythm that I think has really stood up to the test of the last six months.
Larry Culp:	43:20	Now we've got, again, I think, a few more months to go, but I really liked the way the team has embraced the reality. The pandemic redefined what winning in this environment looks like and just gotten on with executing those plans.
Staley Cates:	43:38	I guess the big recent ESG item would have been carbon neutrality by 2030. Can you talk about that a little bit?

Larry Culp: 43:46 Sure. Well, we wanted to put that out once we were a little bit along in the transformation of the company. We didn't want that to just be something that generated a headline. We wanted it to be on a path toward better performance. General Electric is a company that very naturally is positioned to lead in the energy transition. It's natural for us, not only given our positions in gas turbines, but renewables, particularly in wind as well.

Larry Culp: 44:24 Not to mention the fact that every new generation of commercial aircraft come to market because our engines under wing are more fuel efficient, but we also, Staley, wanted to make sure that people were clear about our own internal improvements. And again, kind of back to Lean. Lean is green; Lean is about waste elimination. So we wanted to, if you will, update that architecture and let people know what we're committed to doing inside of our own four walls over the next decade. We've got work to do back to your introduction, but it's work we can and should do.

Staley Cates: 45:08 Well, my last question will be about a quick elevator pitch investment case for GE. But the second to last question is about GE Capital, just because with our own client base, that's kind of our own biggest or that's the biggest pushback we hear, or the fear of the unknown, the leverage there. That just seems to be the negative that is the last remaining hurdle for some people. But can you talk about where you are on GE Capital?

Larry Culp: 45:41 Sure. Well, we've been working to shrink GE Capital and bring down the leverage there and on the industrial balance sheet, as you know. I think of Capital today, it's smaller than what people will think of when they think GE Capital back in its heyday, it's really barbell today. On one end, we have a GECAS, the other place where we have been pressured given what COVID has meant in the commercial aviation space, but we've got just an outstanding aircraft lessor business there that we think will recover nicely as people return to flight.

Larry Culp: 46:24 And the other is our run-off insurance business, which of course generated some negative and surprising

headlines a few years ago but which we think we have framed for folks in a more or less frightening way. Unfortunately, the last couple of years, the claims curves that were reset a few years back have stood up to the annual updates, so, I think we understand that, but again GECAS is a strong business.

Larry Culp: 46:59

The other piece of capital today is a runoff insurance business, which we think we have a strong handle on and which we've tried to educate investors about, so that it's not something that is misunderstood.

Staley Cates: 47:15

Well, I guess that lets us end with the investment case, but what gets you most excited right now about owning the stock?

Larry Culp: 47:24

And I am an owner Staley.

Staley Cates: 47:27

We're fully aware.

Larry Culp: 47:30

When you look at GE, I think you have a portfolio of important, soon-to-be high performing businesses with leadership positions in the areas that are really going to matter over the next 5 to 10 years. Be it the energy transition, be it precision healthcare, as well as the safe return to flight post COVID.

Larry Culp: 47:52

So to have these positions in those markets, with this team committed to running those businesses, taking advantage of those opportunities with everything we've got over that time period, to me, that is what has me as energized today is as I was not more so when I walked in back that first Monday in October, back in '18.

Staley Cates: 48:18

Well, as shareholders, we are grateful you're there, there have been some obvious, terrible external things that have happened, and that sets us all back somewhat. But on the controllable things, you've done a fantastic job so thank you for that, and thank you very much for doing this today.

Larry Culp: 48:36

Well, I appreciate the good word, Staley. It's a team effort here at GE. We appreciate your support and glad

we had a chance to visit today on Lean GE and everything else we covered.

Staley Cates: 48:49

Great. Well, thank you and take care.

Larry Culp: 48:52

Stay safe.

Gwin Myerberg: 48:56

Many thanks to Staley and to Larry Culp for joining us today and for the fascinating tutorial on Lean manufacturing. Thank you as always to all of our listeners for tuning in to the Price-to-Value Podcast, with Southeastern Asset Management. If you have any questions or would like to share topics you'd like to see us cover in future episodes, please feel free to send us an email at podcast@SEasset.com.

LLP001156



Southeastern Asset Management
6410 Poplar Avenue, Suite 900
Memphis, TN 38119
+1 (901) 761-2474

southeasternasset.com