Leading & Managing Strategic Change

Curtis Reusser, Chairman, President & CEO – Esterline Corporation
Who is This Guy?

- Aerospace industry experience – 30 years
  - General Dynamics
  - Heath Tecna
  - Tramco
  - Goodrich
  - United Technologies
Why Esterline?

• Familiar with the company
• Impressed with the business
• Experience in both:
  – Decentralized mgmt. structure
  – Large organizations with strong central functions
• Opportunity to return to the Pacific Northwest
Esterline Explained

- Started by John Esterline in Indiana in 1906
- Now the largest public aerospace company headquartered in Washington (Bellevue)
- Traded on New York Stock Exchange
- ~$2B annual revenue
Strong Global Footprint for Sales and Mfg.

Three Segments:
- Advanced Materials
- Avionics & Controls
- Sensors & Systems

Key Regional Locations
13,000 Employees
Advanced Materials Segment ~$450M (2016)

Defense Technologies

Engineered Materials
Avionics & Controls Segment ~$850M (2016)

Avionics Systems

Control & Communication Systems

Interface Technologies
Sensors & Systems Segment ~$700M (2016)

Advanced Sensors

Connection Technologies

Power Systems
Common Product/Market Characteristics

Aerospace
- Regulated businesses with high barriers to entry
- Highly reliable products for harsh environments
- Critical human-machine interface capabilities
- Precision machine-machine system interfaces
- More electric / “smart” systems
- Mission-critical subsystems and components

Defense

Adjacent
Dozens of Major Customers

- Airbus
- Boeing
- Siemens
- Thales
- Lockheed Martin
- Lufthansa
- GE Healthcare
- Raytheon
- Orbital ATK
- Rockwell Collins
- BAE Systems
- Honeywell
- Dassault Aviation
- Pratt & Whitney
- Safran
- Gulfstream
- United Technologies
- Bombardier
- Philips
- UTC Aerospace Systems
- cfm
- Ministry of Defence
Setting the Stage

- Esterline grew from ~$300M annual revenue in the ’90s to ~$2B with >100% stock appreciation
The Case for a New Strategy

- The company had reached critical mass
- Struggle maintaining competitive advantages
- Inefficiencies throughout the global enterprise
- Needed a clear and unified vision
Transition Priorities

• Establish a new STRATEGY
• Clear COMMUNICATION to all stakeholders
• Maintain mission-critical CULTURE
• Continue GROWTH
• Set and meet EXPECTATIONS

Which One is Most Important?
What Does a Strategic Plan Look Like?

- Market Overview
- Competitive Assessment
- Technology Roadmap
- Investment Priorities
- Acquisitions
- Growth Targets
- Operational Objectives
- Financials
Our 5 Year Strategic Plan Update

• Receive updates from business units – Segment business reviews
  – Market positions and competitive landscape
  – Growth opportunities and required investments

• Present strategic plan to the Board of Directors

• Share with the public (and investors)

Create a living process tied to annual policy deployment
Enterprise-Wide Areas of Focus

A high performing aerospace and defense company whose engaged employees deliver value through world class products, services and technologies.

Profitable & Balanced Sales Growth
- Above A&D Average
- Short Cycle/Long Cycle
- Grow Aftermarket
- Aero / Defense / Other

Enterprise Excellence
- Lean Excellence
- Quality/Delivery
- CI Culture in all areas

Employee Engagement
- Global Mfg. Strategy
- Shared Services (IT, HR, Compliance)
- Strategic Sourcing

Leverage the Enterprise
- Employee Engagement
- Leader Development
- Accountability
- Alignment

Regulatory & Customer Compliance
- High focus on Ethics
- “Trading Right”
- EH&S
- Process
Critical Pieces Remain the Same

**Markets**
- ✅ Aerospace
- ✅ Defense
- ✅ Aftermarket
- ✅ Other (Medical, Gaming, Industrial)
- ✅ Leverage Regulated Barriers to Entry

**Business Approach**
- ✅ Organic + Acquisitive Growth
- ✅ Strong People Culture
- ✅ Lean / CI Focus
- ✅ Enterprise Excellence
- ✅ Leverage / Expand Low-Cost Country Presence
- ✅ Technology / Sole-Source Positions
Culture and Strategy

• Strategy can be copied…Culture can’t

What we want to get done

Mission/Vision
Values

How it gets done

Guiding Path

Driving Path

Strategy
Goals
Initiatives
Improvement Targets

Culture
Values
Behaviors
Operating System

Results

Curtis Reusser, Esterline Corporation
High-level look at the alignment process

Esterline uses a PD Matrix to link Goals to Initiatives and annual Improvement Targets

Employee objectives
Inconsistent
Working hard to achieve Department goals

Employee objectives
Aligned
Working hard to achieve Business goals
PD Flowdown Process

Esterline Corporate
Level 6

Monthly Review of Progress

Level 1 Platform
Central Support Functions PDM

Macro Plan

Monthly Review of Progress

Level 2 PDM BU Sites

Macro Plan

Level 2 PDM BU Support Functions

Macro Plan

Six week Review of Progress
Culture

• Your Culture needs to be carved in Granite
• It must be non-optional for the organization
• Esterline and others have found three key components are essential:

1. Your Values – your true north
2. Your People Philosophy – how you treat all people
3. Your Operating System – how you get things done
Our Operating System

- Based on the principles of the Toyota Production System
  - Initially taught to us by a first-generation student of Toyota-based consultants
- 20+ years of Legacy Goodrich experience
- Further refined with support from Porsche Consulting in the areas of Material Management and Logistics
How we educate our employees

- We have a week-long intensive clinic that focuses on teaching the principles of the Operating System.
- The clinic includes several rounds of a “Truck Factory” simulation that teaches practical application of the principles.
- Leadership is accountable for leading the application of the principles.
- Esterline has a robust assessment tool to coach progress.
Continuous Improvement (CI) Progress Report

- Have now trained more than 1500 key leaders
  - CI Foundations Academy with simulated truck factory
Why we are doing this…

- Companies that are committed to these principles and a well-defined culture exceed the performance of their peers.
- It is the right thing to do for our stakeholders, especially for our employees.

Proven Formula of Gains from Commitment to Continuous Improvement.
The Framework: High-Performance Culture

"The Esterline Way"

- Our Values and Principles
  - Deliver What We Promise
  - Practice Mutual Trust & Respect
  - Use Integrity and Ethical Conduct
  - Comply with Laws and Regulations

- Our Operating Approach: Esterline Enterprise Excellence
  - Customer Satisfaction
  - Policy Deployment
  - Continuous Improvement
  - Waste Elimination
  - Toyota Production System
  - Innovation
  - Safe Workplace

- Our People Philosophy
  - High Standards
  - Teamwork and Accountability
  - Inclusion and Engagement
  - Training and Development
  - Open, Two-way Communication

Culture and Leadership are Key to Achieving and Maintaining Change!

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QUESTIONS?