



# Leading & Managing Strategic Change

*Curtis Reusser, Chairman, President & CEO – Esterline Corporation*

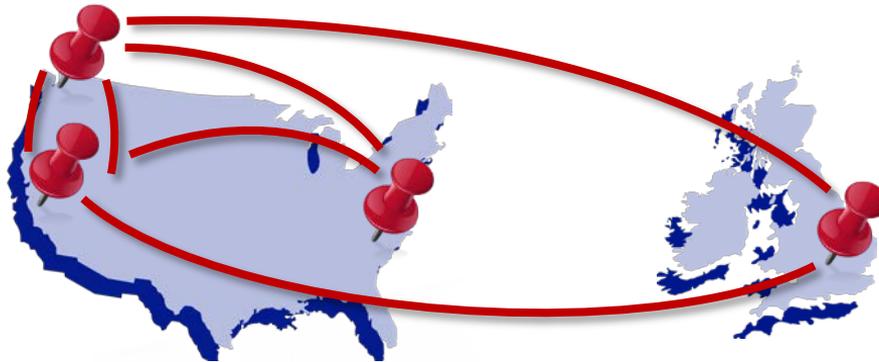
# Who is This Guy?



**W**

UNIVERSITY *of*  
WASHINGTON

- Aerospace industry experience – 30 years



- » General Dynamics
- » Heath Tecna
- » Tramco
- » Goodrich
- » United Technologies

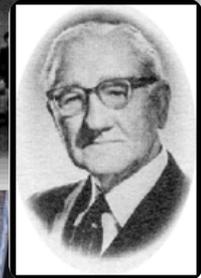
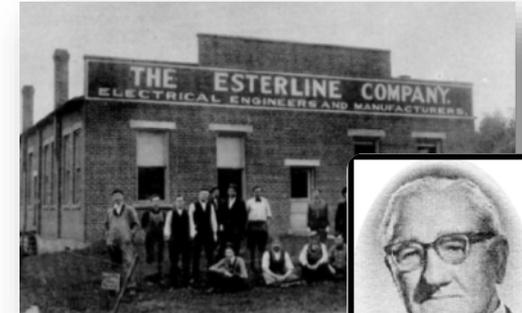
## Why Esterline?

- 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

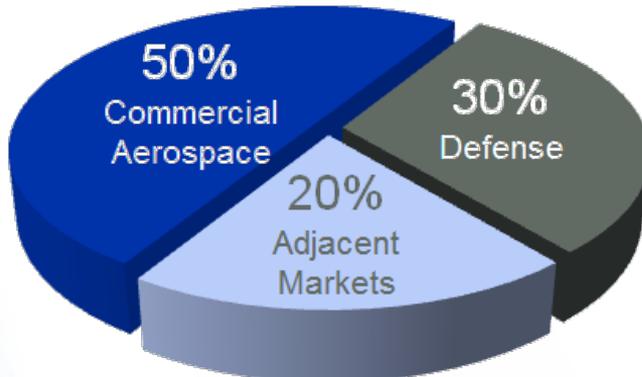
 Esterline

# Esterline Explained

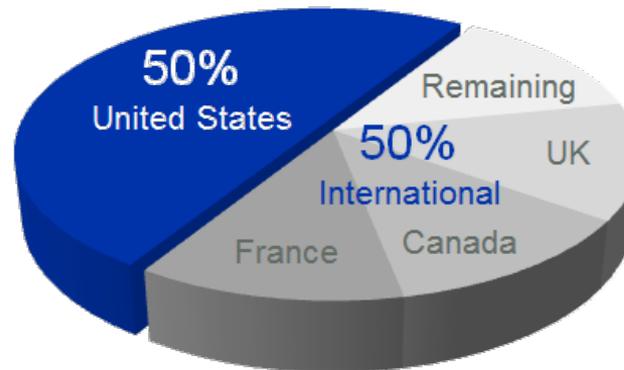
- Started by John Esterline in Indiana in 1906
- Now the largest public aerospace company headquartered in Washington (Bellevue)
- Traded on New York Stock Exchange
- ~\$2B annual revenue



**Markets**



**Revenue Balance**



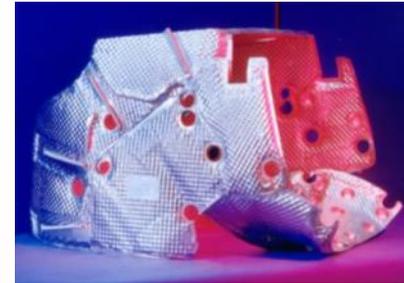
# Strong Global Footprint for Sales and Mfg.

Key Regional Locations  
13,000 Employees

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

# Advanced Materials Segment ~\$450M (2016)

## Defense Technologies

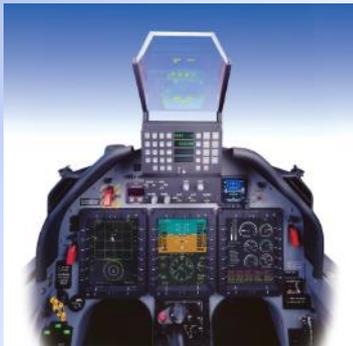


## Engineered Materials



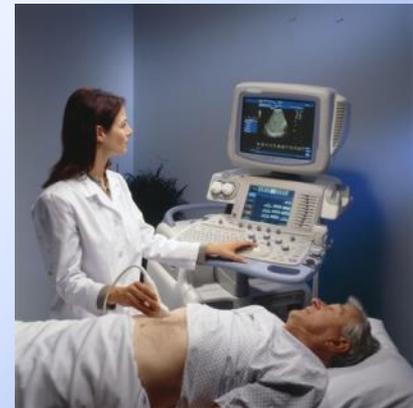
# Avionics & Controls Segment ~\$850M (2016)

## Avionics Systems



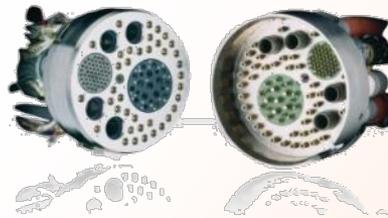
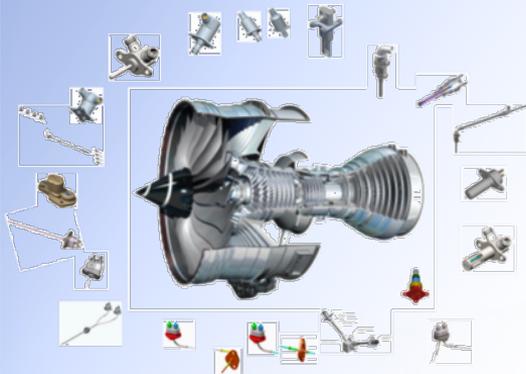
## Control & Communication Systems

## Interface Technologies



# Sensors & Systems Segment ~\$700M (2016)

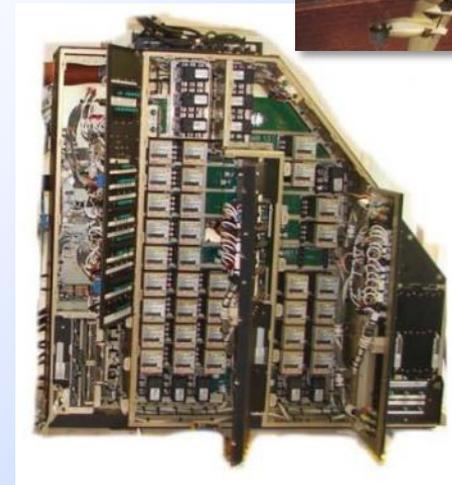
## Advanced Sensors



## Connection Technologies



## Power Systems



# Common Product/Market Characteristics

**Aerospace**

**Defense**

**Adjacent**

**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**

# Dozens of Major Customers

**AIRFRANCE**

**AIRBUS**

**SIEMENS**

**THALES**

**LOCKHEED MARTIN**

GE Healthcare



**Lufthansa**



**BOEING**



**Raytheon**



**SAFRAN**

**Rockwell Collins**

**Honeywell**

**BAE SYSTEMS**  
INSPIRED WORK



**AIRBUS**  
HELICOPTERS

**BOMBARDIER**



**UTC Aerospace Systems**



Ministry  
of Defence

Gulfstream

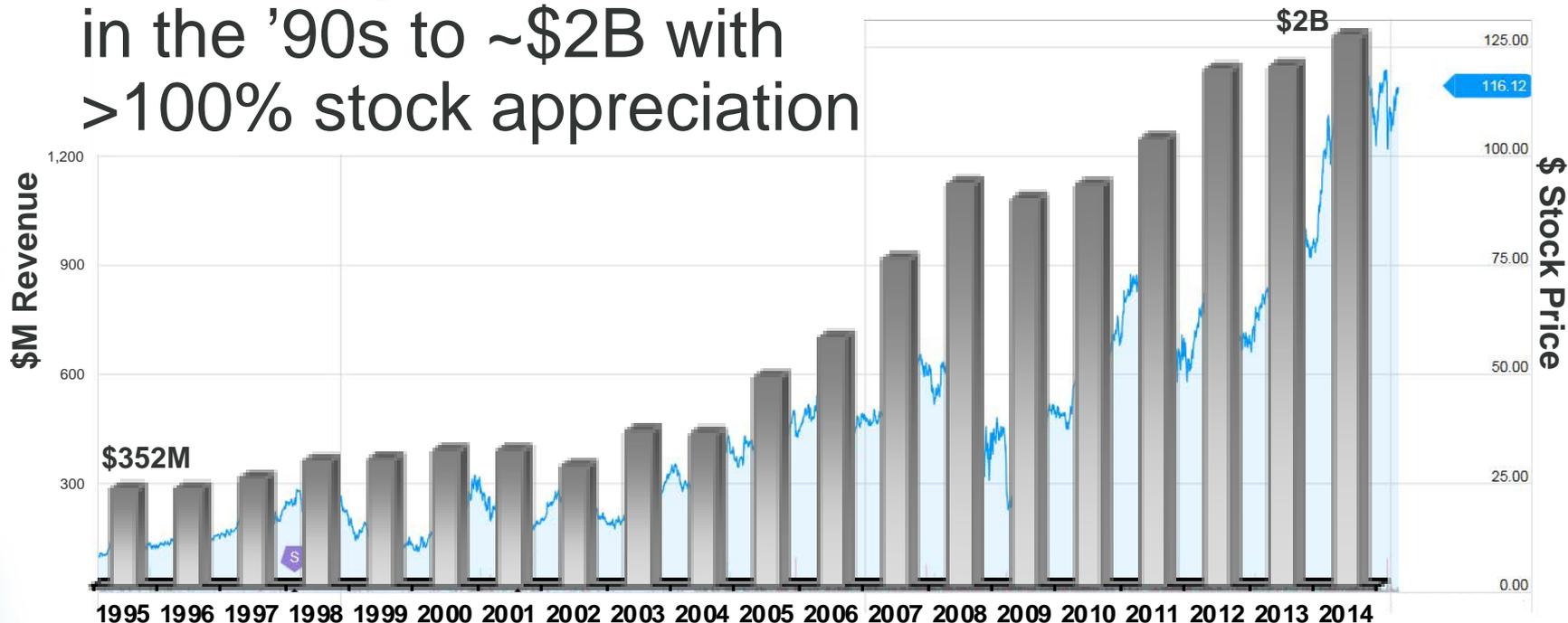


**United  
Technologies**

**GENERAL DYNAMICS**

# 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?**



## 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



# Critical Pieces Remain the Same

## Markets

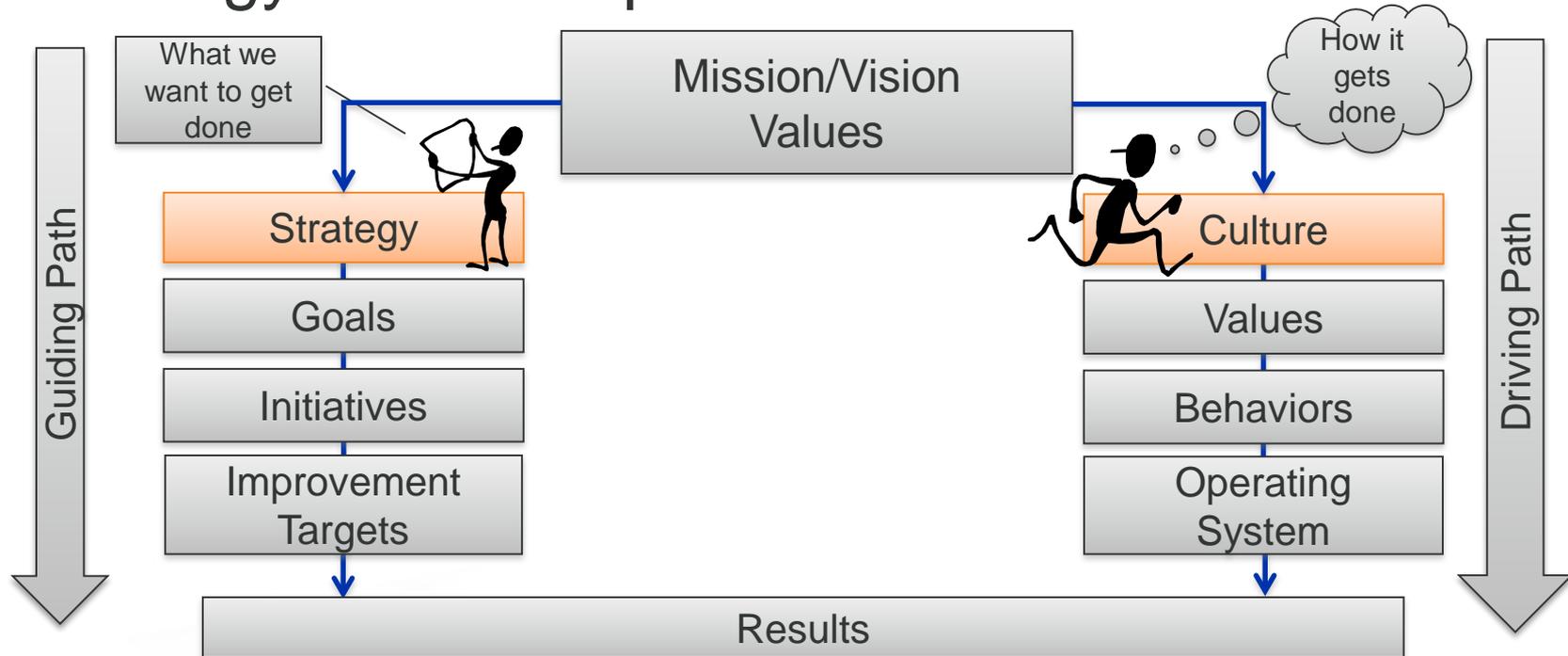
- ✓ Aerospace
- ✓ Defense
- ✓ Aftermarket
- ✓ Other (Medical, Gaming, Industrial)
- ✓ Leverage Regulated Barriers to Entry

## Business Approach

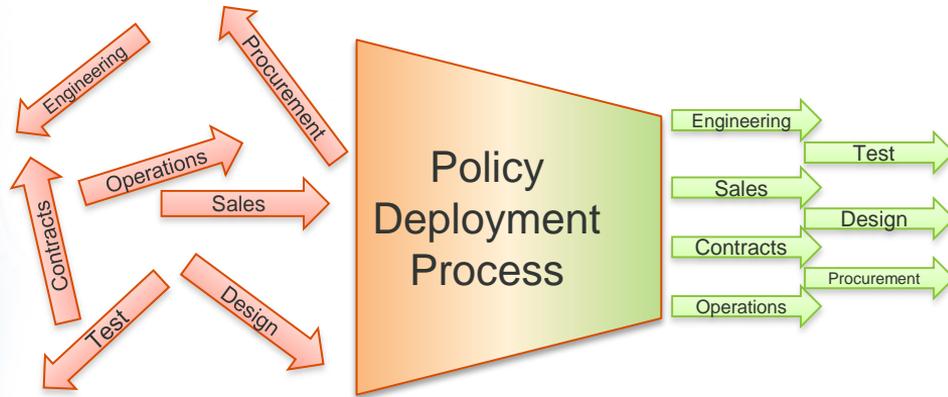
- ✓ Organic + Acquisitive Growth
- ✓ Strong People Culture
- ✓ Lean / CI Focus
- ✓ Enterprise Excellence
- ✓ Leverage / Expand  
Low-Cost Country Presence
- ✓ Technology / Sole-Source Positions

# Culture and Strategy

- Strategy can be copied...Culture can't



# High-level look at the alignment process



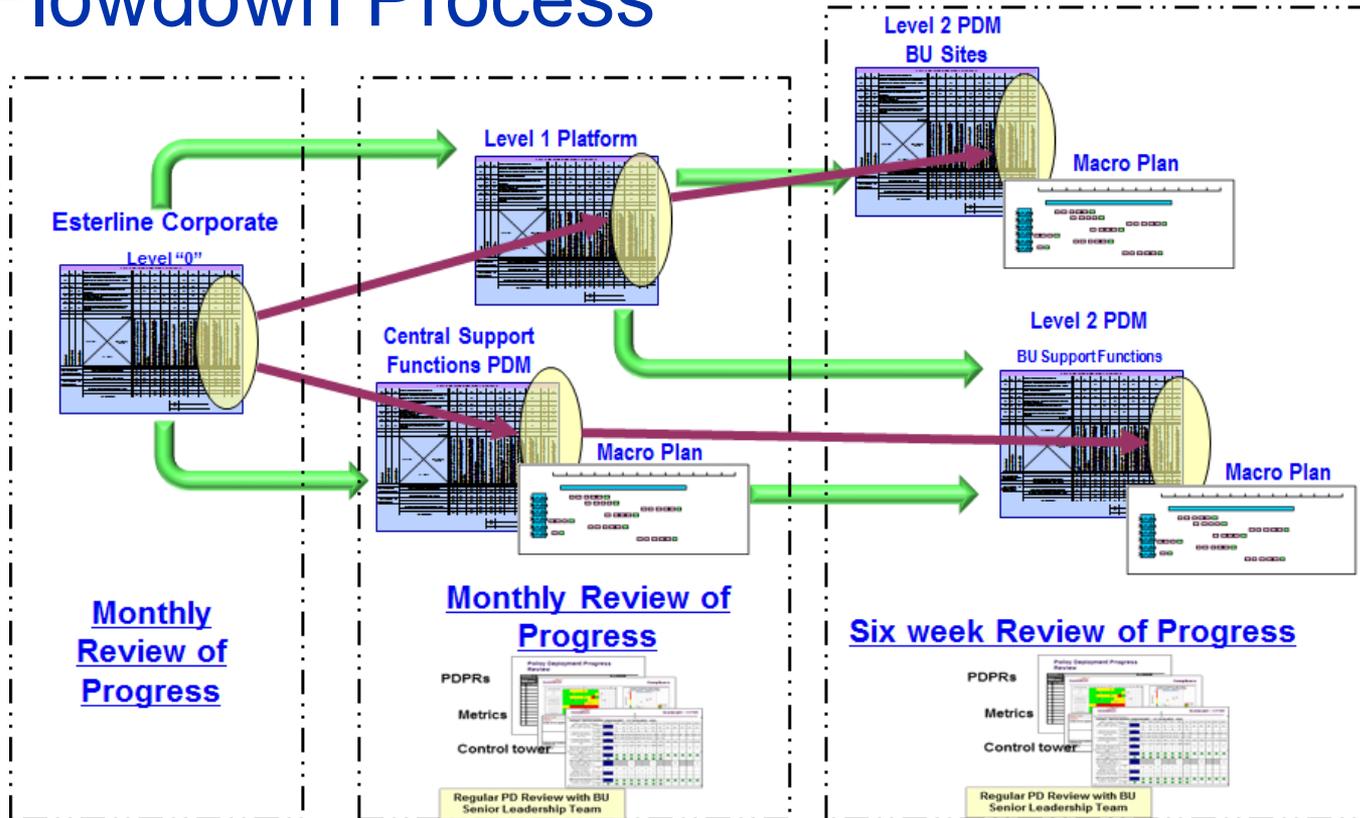
Employee objectives  
Inconsistent  
Working hard to achieve  
Department goals

Employee objectives  
Aligned  
Working hard to achieve  
Business goals

2014 Esterline Policy Deployment																											
l	l	l	k	k									Consistently meet our quarterly financial commitments: corporate EBIT of 15% and improving working capital ratio by 10% per year.	l	l	l	k	j	k	k	j	j	j	j			
l	l	l	l	k									Achieve competitive advantage through CI to consistently improve our cost structure and achieve customer "gold" standards for OTD and Quality.	k	l	l	j	j	k	l	k	j	j	k	j		
k	k	k	l	l									Leverage the enterprise best practices and resources in the	j	j	k	j	l	l	j	j	j	j	j	j		
k	k	l	j	j									Initiatives	j	k	k	l	j	k	j	k	j	j	k	j		
k	l	k	j	j										Industry average growth in commercial, defense, aerospace, and	k	j	j	l	l	j	j	k	l	j	k	l	
l	k	l	j	j									Achieve world class trade compliance.	k	j	k	j	l	k	j	j	k	l	j	k	l	
k	k	k	k	l									Establish a comprehensive talent management system to attract, develop and retain engaged employees who model The Esterline Way in our High Performing Organization.	j	j	k	l	j	j	l	j	l	j	l	j	l	
k	l	l	l	l									Invest in value creating technologies for our customers on targeted growth platforms securing consistent cash flow and balanced R&D.	k	j	l	j	j	k	l	k	l	l	j	j	j	
l	l	l	l	l	k								Establish and fully implement policy deployment as our business management process.	l	l	l	k	k	l	k	k	l	k	l	k	l	
													Goals	Goals	Improvement Targets	Resources	Performance & Balance Employee Satisfaction Average the Bu Employee Engagement Regulatory & Compliance										IT as a Driver Legend 4 - Owner of Plan to Achieve 2 - Actionable items to support owners 0 - Actionable items upon request
																	2014 Strategic Plan 2014 Financial Plan 2014 Operational Plan 2014 Marketing Plan 2014 HR Plan 2014 IT Plan 2014 Legal Plan 2014 Compliance Plan 2014 Safety Plan 2014 Environmental Plan 2014 Quality Plan 2014 Customer Plan 2014 Supplier Plan 2014 Community Plan 2014 Sustainability Plan 2014 Innovation Plan 2014 Risk Management Plan 2014 Security Plan 2014 Business Continuity Plan 2014 Crisis Management Plan 2014 Disaster Recovery Plan 2014 Business Resilience Plan 2014 Business Impact Analysis 2014 Business Continuity Testing 2014 Business Continuity Review 2014 Business Continuity Improvement 2014 Business Continuity Reporting 2014 Business Continuity Communication 2014 Business Continuity Training 2014 Business Continuity Awareness 2014 Business Continuity Culture 2014 Business Continuity Leadership 2014 Business Continuity Governance 2014 Business Continuity Assurance 2014 Business Continuity Monitoring 2014 Business Continuity Evaluation 2014 Business Continuity Improvement 2014 Business Continuity Reporting 2014 Business Continuity Communication 2014 Business Continuity Training 2014 Business Continuity Awareness 2014 Business Continuity Culture 2014 Business Continuity Leadership 2014 Business Continuity Governance 2014 Business Continuity Assurance 2014 Business Continuity Monitoring 2014 Business Continuity Evaluation 2014 Business Continuity Improvement										
Linkage Legend													IT as a Driver Legend														
Segments, BU's platforms													l	l	l	l	l	l	l	l	l	l	l	l	l	4 - Owner of Plan to Achieve	
Finance, IT													k	k	l	k	l	k	k	l	j	l	k	l	k	2 - Actionable items to support owners	
Human Resources													j	k	l	l	l	k	k	l	j	l	k	l	k	0 - Actionable items upon request	
Legal													j	j	l	k	l	j	j	k	j	l	j	l	j		

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

# PD Flowdown Process



# 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

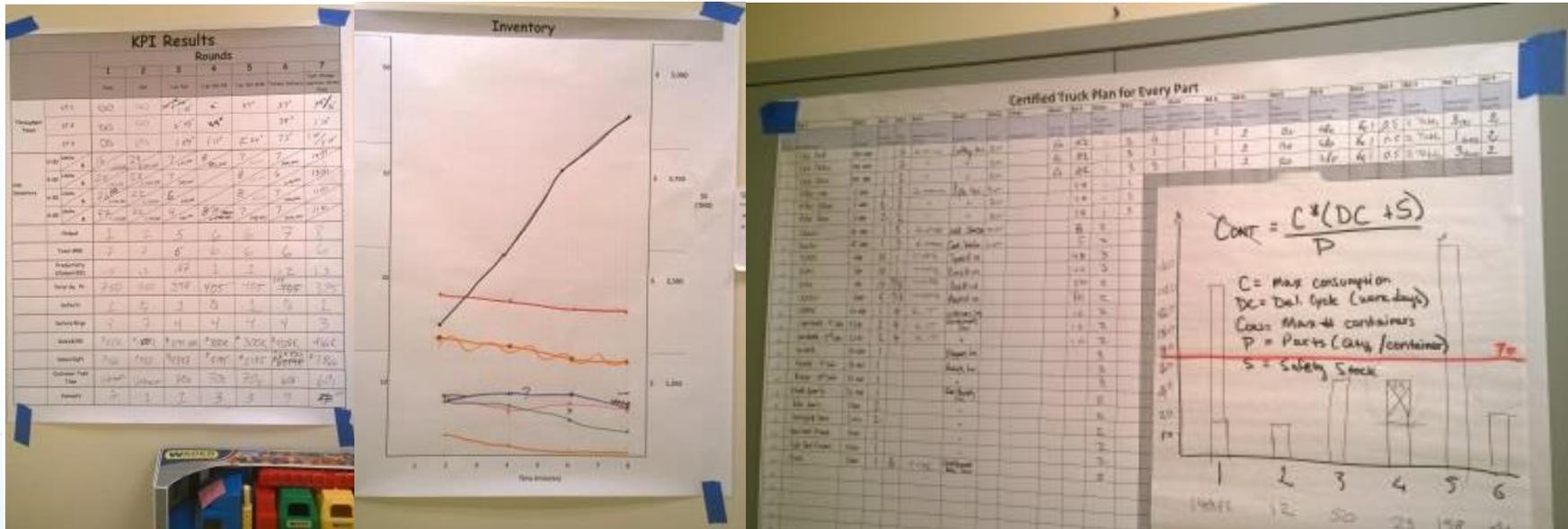
# How we educate our employees



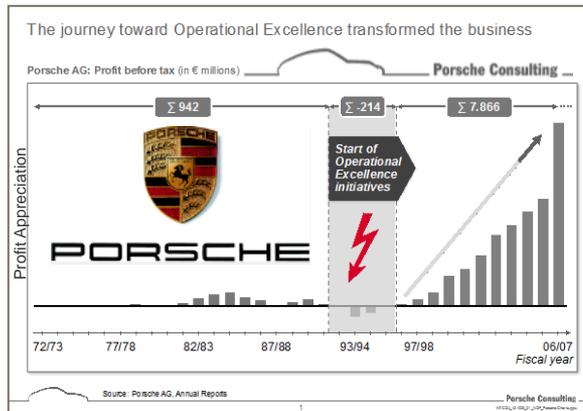
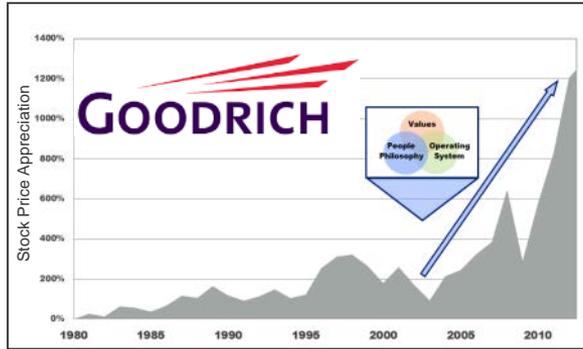
- We have a week-long intensive clinic that focuses on teaching the principles of the Operating System
- The clinic includes several rounds of a “Truck Factory” simulation that teaches practical application of the principles
- Leadership is accountable for leading the application of the principles
- 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*

### *Our People Philosophy*

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

Customer Satisfaction  
Policy Deployment  
Continuous Improvement  
Waste Elimination  
Toyota Production System  
Innovation  
Safe Workplace

**Culture and Leadership are Key to Achieving and Maintaining Change!**



**QUESTIONS?**