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GE - Q3 2016 General Electric Co Earnings Call

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OVERVIEW:

Co. reported 3Q16 revenues of $29.3b and net EPS of $0.22. Expects 2016 EPS to be $1.48-1.52.

Caution Concerning Forward-Looking Statements:

This document contains "forward-looking statements" – that is, statements related to future events that by their nature address matters that are, to different degrees, uncertain. For details on the uncertainties that may cause our actual future results to be materially different than those expressed in our forward-looking statements, see http://www.ge.com/investor-relations/disclaimer-caution-concerning-forward-looking-statements as well as our annual reports on Form 10-K and quarterly reports on Form 10-Q. We do not undertake to update our forward-looking statements. This document also includes certain forward-looking projected financial information that is based on current estimates and forecasts. Actual results could differ materially.

Non-GAAP Financial MEASURES:

In this document, we sometimes use information derived from consolidated financial data but not presented in our financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). Certain of these data are considered "non-GAAP financial measures" under the U.S. Securities and Exchange Commission rules. These non-GAAP financial measures supplement our GAAP disclosures and should not be considered an alternative to the GAAP measure. The reasons we use these non- GAAP financial measures and the reconciliations to their most directly comparable GAAP financial measures are posted to the investor relations section of our website at www.ge.com.

We use non-GAAP financial measures including the following.

- Operating earnings and EPS, which is earnings from continuing operations excluding non-service-related pension costs of our principal pension plans.
- GE Industrial operating & Verticals earnings and EPS, which is operating earnings of our industrial businesses and the GE Capital businesses that we expect to retain.
- GE Industrial & Verticals revenues, which is revenue of our industrial businesses and the GE Capital businesses that we expect to retain.
- Industrial segment organic revenue, which is the sum of revenue from all of our industrial segments less the effects of acquisitions/dispositions and currency exchange.
- Industrial segment organic operating profit, which is the sum of segment profit from all of our industrial segments less the effects of acquisitions/dispositions and currency exchange.
- Industrial cash flows from operating activities (Industrial CFOA), which is GE's cash flow from operating activities excluding dividends received from GE Capital.
- Capital ending net investment (ENI), excluding liquidity, which is a measure we use to measure the size of our Capital segment.
- GE Capital Tier 1 Common ratio estimate is a ratio of equity to total risk-weighted assets.

General Electric Capital Corporation (GECC) has been merged into GE and our financial services business is now operated by GE Capital Global Holdings LLC (GECGH). In this document, we refer to GECC and GECGH as "GE Capital". We refer to the industrial businesses of the Company including GE Capital on an equity basis as "GE". "GE (ex-GE Capital)" and /or "Industrial" refer to GE excluding GE Capital. Our financial services segment previously referred to as GE Capital is now referred to as Capital.

GE's Investor Relations website at www.ge.com/investor and our corporate blog at www.gereports.com, as well as GE's Facebook page and Twitter accounts, contain a significant amount of information about GE, including financial and other information for investors. GE encourages investors to visit these websites from time to time, as information is updated and new information is posted.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the General Electric third-quarter 2016 earnings conference call. (Operator Instructions) My name is Ellen, and I will be your conference coordinator today. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the program over to your host for today's conference, Matt Cribbins, Vice President of Investor Communications. Please proceed.

Matt Cribbins - ***General Electric Company - VP Investor Communications***

Good morning and thanks for joining our third-quarter earnings call. Today I'm joined by our Chairman and CEO, Jeff Immelt, and our CFO, Jeff Bornstein. Earlier today, we posted the press release, presentation, and supplemental on our investor website at www.GE.com/investor.

As a reminder, elements of this presentation 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 can change as the world changes.

With that, I'll turn it over to Jeff.

Jeff Immelt - ***General Electric Company - Chairman, CEO***

Hey, thanks, Matt. GE had a good quarter in a slow growth environment. We continue to see challenges in the resource sector as customers adjust to a lower price environment.

Globally, growth continues, but at a low level. There is sufficient opportunity out there to achieve our goals. At the same time, we plan to control our costs even tighter as we navigate this environment.

GE grew organically by 1% and EPS grew by 10%. Segment profit grew by 1% year-to-date, ex-FX. Industrial margins were up 40 basis points, again excluding foreign exchange.

CFOA was $8 billion, including $2.9 billion of industrial cash flow. We end the quarter with $319 billion of backlog, and we accomplished our financial goals despite the impact of $0.04 per share in foreign exchange headwinds year-to-date.

We continue to execute our capital allocation plan. We have virtually completed our pivot in financial services, with $193 billion of signings.

Year-to date, we've returned $24.6 billion to investors through dividends and buyback. For the year, we're increasing the buyback by $4 billion, from $18 billion to $22 billion, and total cash returned to investors will be at least $30 billion for the year.

We continue to invest in the Company. In the quarter, we announced investments in additive manufacturing, digital platforms, and wind turbine supply chain. These will add to earnings in 2018 and position the Company in fast-growth markets in the future.

Orders were $26.9 billion, down 6%. Alstom orders were $5.2 billion, and backlog is up $3.2 billion since the acquisition. Overall, backlog is up 6% versus a year ago, with service backlog up 11%.

We had substantial strength in Renewables, Healthcare, and Power. Renewables grew by 59%, including our first substantial offshore order at $600 million and a $400 million order to repower the installed base.

Healthcare HCS equipment had its strongest orders growth in five years at 12%. This includes 12% growth in the United States and 15% in China.

Aviation service orders were up 10%, and growth market orders were up 21%.

Oil & Gas orders were down 21% in the quarter. There are still pockets of growth. Our Middle East orders grew by 5%, and Latin America was up by 19%. We ended the quarter with $22 billion of backlog, and we expect fourth-quarter orders to be about flat with a year ago.

AGPs remain on track for 135 to 150 in the year. Software orders were about $900 million in 3Q, up 11%; and at $2.8 billion they're up 15% year-to-date.

We saw significant growth in Power, up 72%; Oil & Gas up 10%; Transportation up 21%; and Grid up 43%. Customer wins include [Gairdow], NEC, Aramco, Haier, and CN.

We continue to build our foundation for growth. We have 243 partners on Predix and are on track for 20,000 developers by year-end.

Our productivity at $500 million is already above target and should be strong for the year. We see orders strengthening in the fourth quarter versus a year ago, and that will position us for 2017.

GE is executing well in the environment. As I said earlier, organic growth was up 1%. Excluding Oil & Gas, organic revenue growth is up 6% in the third quarter and 4% year-to-date.

We had several strong business performances. Power was up 7% with 15% growth in equipment; Renewables grew 44%; Aviation Service was up 12%.

And the GE Store contributed to growth, with vertical financings which supported $4.2 billion of Industrial orders. Meanwhile, GE2GE revenue, which is a measure of internal pullthrough, grew by 25%.

Organic growth is accelerating through the year. The fourth quarter will be at 4%, and for the year we expect organic growth to be 0% to 2%.

We continue to see a drag in Oil & Gas, with revenue down 15% to 20% for the year. The rest of GE will grow at a healthy pace.

The Oil & Gas team is executing well in a tough environment. We continue to aggressively manage costs while positioning for long-term growth. The business fully leverages the GE Store and will come out of the cycle stronger.

Core margins grew by 40 basis points and gross margins grew by 110 basis points, ex-FX. We've seen solid work in value gap and cost productivity, slightly offset by mix.

Service margins again led the way, with 220 basis points of expansion. Our analytical tools have been critical to enhance service margins.

Our businesses have done a nice job in a slow growth environment. For instance, Transportation grew margins by 90 basis points despite lower volume.

We continue to invest in the growth and competitiveness of GE. Alstom remains on track, and we're building backlog and winning key new orders. We're on track for synergies of $1.2 billion in the year.

Year-to-date, Alstom orders are $12.7 billion, up 13% versus 2015. We pulled forward more restructuring, which should help 2017 and beyond.

Alstom remains on track to deliver $0.05 EPS this year ex-FX, and we expect to complete purchase accounting in the fourth quarter by booking an incremental reserve of $2.4 billion to cover customer contracts and legal and tax reserves. This is consistent with expectations. The net present value of synergies is more than $21 billion, and Alstom will generate a mid-teen return over time.

In September, we announced the acquisition of SLM and Arcam, which will position GE as a leader in the fast-growth market for additive manufacturing equipment while opening up potential for an additional $3 billion to $5 billion of productivity over time.

Also in September we announced the acquisition of Meridium, a leader in asset performance management. This completes our suite of maintenance optimization, machine and equipment health, and reliability management. It's a perfect fit for our digital strategy and will accelerate our growth.

Last week we announced the acquisition of LM Wind Power. This gives us enhanced margins and technical expertise. In addition, this opens up growth in emerging markets. LM and GE have a deep pipeline of innovation which will lead the industry.

We had a pretty good quarter for cash. Industrial CFOA was $2.9 billion, up 13% from 2015. Year-to-date free cash flow was $17.3 billion, including a capital dividend of $5 billion. We received an additional $2 billion dividend from Capital in October.

In the fourth quarter, we expect Industrial CFOA to be more than $9 billion based on higher earnings and lower working capital. In addition, we should receive a $4 billion dividend from GE Capital. So for the year, we expect free cash flow plus dispositions to be more than $32 billion above our goal.

As I noted earlier, we continue to invest in long-term growth and competitiveness, and with the improved outlook on CFOA we plan to boost our buyback by $4 billion to $22 billion, with the total cash return to investors expected to be $30 billion including the dividend.

Our balance sheet remains very strong. All of our cash metrics look solid for the year. So now let me turn it over to Jeff to go through operations.

Jeff Bornstein - ***General Electric Company - SVP, CFO***

Thanks, Jeff. I'll start with the third-quarter summary.

Revenues of $29.3 billion, up 4% in the quarter. Industrial revenues were up 5% to $26.7 billion. You can see on the right side that Industrial segments were up 4% reported and up 1% organic. Alstom revenue in the quarter was $3.2 billion.

Industrial operating + Verticals EPS was $0.32 in the quarter, up 10%. The operating EPS number of $0.27 includes other continuing GE Capital activity, including headquarter runoff and exit-related items that I'll cover on the GE Capital page.

Continuing EPS of $0.23 includes the impact of nonoperating pension. The net EPS of $0.22 includes discontinued operations.

Total disc-ops impact was a charge of $103 million in the quarter, driven by GE Capital exit costs.

As Jeff said, we generated $18.3 billion of CFOA year-to-date, up from $6.5 billion last year, driven by increased dividends from GE Capital. Excluding deal taxes, Industrial CFOA was $3.4 billion year-to-date, down 45%.

We generated $2.9 billion of Industrial CFOA in the third quarter, which was up 13% versus last year. This was driven primarily by working capital improvements in receivables and inventory. Progress collections was a usage in the quarter on lower awards, principally in Oil & Gas.

Free cash flow was up 17%, and free cash flow conversion was 93% in the quarter. Adjusting free cash flow conversion for the mismatch of gain income and cash, which is included in other investing activities, free cash flow conversion would be 99%.

Alstom generated $25 million of CFOA in the quarter.

As Jeff said earlier, we now expect GE Capital dividends for the year of $20 billion versus the planned $18 billion. Fourth quarter will be another large Industrial cash quarter on $5 billion of cash income and continued progress on working capital, principally around inventories related to higher volume of deliveries in the quarter.

Industrial CFOA is expected to generate between $11 billion and $12 billion of cash for the total year.

The tax rate was 11% in the quarter, bringing the year-to-date tax rate to 13%. In the third quarter, we adopted an accounting standards change related to the treatment of tax benefits on stock option exercises, which had a favorable impact on our 3Q tax rate of about 2 points. The impact on our year-to-date rate was about 1 point.

Given that change, we now expect the total-year GE rate to be in the low teens versus the mid-teens rate we guided to previously. The GE Capital tax rate was favorable, reflecting a tax benefit on pretax continuing loss.

On the right side are the segment results. As I mentioned, Industrial segment revenues were up 4% reported and up 1% organically. Excluding Oil & Gas, which has clearly been challenging, organic revenue was up 6% with strength in Power, Renewables, Aviation, and Healthcare.

Industrial segment op profit was down 5% reported and down 3% organically. The organic number excludes the impact of $14 million of FX translation headwind.

We also had an additional $128 million of negative FX transactional impacts year-over-year, which is not adjusted for in the organic calculation. This is related to remeasurement and mark-to-market on open hedges, principally in Oil & Gas, Renewables, and Energy Connections. Excluding all FX, organic operating profit was flat in the quarter.

Including corporate operating costs, Industrial op profit was down 6% reported, and down 4% organically, and flat excluding all FX.

As you see at the bottom of the page and as I mentioned earlier, Industrial operating + Vertical EPS was $0.32, up 10%, with Industrial operating EPS up 8%. On a year-to-date basis, we delivered $1.03 of EPS, which was up 29% versus the prior year.

Next on Industrial other items for the quarter, we had $0.05 of charges related to Industrial restructuring and other items that were taken at Corporate. Charges were $683 million on a pretax basis, with $200 million related to Alstom synergies investments that we've made to drive results. $100 million related to continued cost-out actions in Oil & Gas and actions taken in Lighting and other segments.

We also closed the Asset Management transaction in the quarter resulting in a $400 million pretax gain. This gain was partially offset by a charge associated with the anticipated sale of our majority share in a nonstrategic business in Aviation that makes aero structures. The net gains for the quarter were $0.02.

At the bottom of the page, you can see the profile for 2016. We continue to expect gains and restructuring to offset for the year at about $0.24, both in earnings and charges.

Next, I'll cover the segments. First is Power. Power orders in the quarter totaled $7.5 billion, up 56%, including Alstom. Excluding Alstom, orders were $4.7 billion, down 3%. Core equipment orders were flat at $1.7 billion.

Gas Power System orders were higher by 6%, driven by aero and gas turbines, offset partially by Distributed Power resets. We booked 36 aeroderivative units in the quarter versus 26 last year on strong demand in sub-Saharan Africa and Argentina.

Gas turbine units were 11 versus 22 a year ago. Although the number of units was lower, the dollar value of the orders were up 10% on much larger units, principally the H, with six units ordered versus four last year. We have 33 H's in backlog and received orders for 50 inception to date on the program.

One of the H orders in the quarter for three units was full scope and included additional Alstom scope totaling $760 million. We continue to see a real opportunity for growth and equipment pullthrough between GE and the Alstom business.

Core equipment backlog grew 34% versus last year.

Core service orders of $3 billion were lower by 4% on lower Power Services, driven by no repeat of a large flange upgrade in Japan last year, and timing on 10 AGP orders. AGP orders in the quarter were 24 versus 22 last year. We have booked 50% of the 10 AGPs that moved to the fourth quarter as of this call and are still on track for the year for 135 to 150 AGPs in total.

Alstom orders in the quarter were $2.8 billion. Equipment orders totaled $2 billion, including $1.1 billion for the Hinkley Point UK power project. We also booked another three HRSGs and three steam turbines related to the full-scope H ones I mentioned earlier.

Alstom service orders were just under $900 million. Alstom backlog ended the quarter at $17.7 billion, which is up 15% since the acquisition, with equipment up 49% and services down slightly.

Power revenue in the quarter totaled $6.5 billion, up 37%. Core GE revenue of $5.1 billion was higher by 7%.

Core equipment revenue of $2 billion grew 15%, driven by Gas Power Systems, higher by 16%. We shipped 30 gas turbines including seven Hs versus 16 a year ago.

Aero units were higher by 9 versus last year. Core services revenues of $3.1 billion grew 2% on outage, volume and upgrades. We shipped 28 AGPs in the quarter versus 22 a year ago.

Alstom revenue in the quarter totaled $1.5 billion, with $530 million of equipment and $920 million of service revenues.

Operating profit in total was just shy of $1.2 billion, with core op profit of $1.1 billion and Alstom op profit of $91 million. Core earnings were higher by 3% on positive value gap and volume, partly offset by the mix impact of seven Hs versus zero last year. The Hs we shipped in the third quarter were profitable, but drove a 70 basis point margin contraction in the quarter.

The $91 million of Alstom earnings included a $16 million FX headwind. Through the third quarter, the team has delivered $650 million of Alstom synergies versus the $777 million total-year target that we shared with you last year, and the business is delivering on its H profitability in the second half. For the year, we expect to ship 25 H turbines and about 110 to 115 gas turbines in total.

Next up is Renewables. Orders in the quarter totaled $3 billion, up 59%. Core orders, excluding Alstom, of $1.9 billion grew 3%.

Core orders are driven by large service orders for $400 million associated with repowering and upgrading existing units, offset partly by fewer new unit orders of 592 turbines versus 821 a year ago. Over 90% of the new unit orders were the large, new machines.

We expect fourth-quarter orders to be strong as the final fully qualified US PTC orders are placed. Repowering, upgrades, and new units provide a strong outlook for the fourth quarter and the future.

Alstom orders in the quarter totaled $1 billion, driven by a large offshore wind win in Germany of over $600 million and $400 million of hydro orders. Backlog finished the quarter at $12.9 billion.

Revenues of $2.8 billion grew 66% with core GE revenues of $2.4 billion, higher by 43%. The business shipped 970 wind units versus 735 wind units in the third quarter of last year. Alstom revenue totaled $381 million in the quarter.

Operating profit of $202 million was up 16%, with the core business higher by 22% driven by higher volume offsetting negative foreign exchange.

Op profit rate was down 150 basis points excluding Alstom, reflecting new product mix and $58 million of negative foreign exchange versus last year. We continue to improve margins on the new 2-megawatt machine.

Alstom synergies in the quarter totaled $46 million, and Alstom op profit was a loss of $12 million. For the year, we now expect to ship 3,000 to 3,200 wind turbines versus the 3,000 we had previously communicated to you.

Next on Aviation, global passenger air travel continues to see strong growth, despite a slight increase in capacity relative to demand. Year-to-date August traffic was up 5.8% with strength in both domestic and international markets. Air freight volumes were up 1.4% August year-to-date with FTKs growing 3.9% year-over-year versus last year.

Orders in the quarter were $6.2 billion, down 6%. Equipment orders of $2.1 billion were down 27% on lower commercial engine orders, driven by 9X, GE90, and GEnx.

In the quarter we booked $1.4 billion of new engine orders including about $400 million in LEAP, $250 million of CFM, and $350 million of GEnx. Military equipment orders of $204 million were up sharply, driven principally by T700 orders from Turkey. Total equipment backlog of $33.7 billion was down 4%.

Service orders grew 10% with commercial service orders up 13%, driven by CSAs up strongly at 29%, overhaul up 9%, and the spares order rate up 6% at $42 million a day. Military service orders were down 12% on no repeat of a large Air Force order last year. Total service backlog grew 15% to $122 billion.

Revenues of $6.3 billion were up 5%. Equipment revenue was down 3%, with commercial up 5% on higher deliveries including 22 LEAP engines, while military equipment revenue was down 33% on lower shipments.

Service revenues were higher by 12%. The commercial spares shipment rate was up 5% to 39.7 million a day.

Operating profit of $1.5 billion was up 10% driven by higher volume and cost productivity. Margin rates improved 120 basis points in the quarter.

Third quarter was another solid execution quarter for the Aviation team, and we are on track for the ramp up on LEAP shipments this year. We have shipped 33 LEAP engines to date, and there are currently six LEAP-powered planes flying with two airlines, with departure performance of 100% and some of those planes operating more than 10 cycles a day. We expect to deliver about 105 engines this year.

Next is Oil & Gas. The industry remains very challenging. Some market indicators showed modest sequential improvement in the third quarter.

US onshore rig counts were higher by 15% versus the second quarter, and US well counts rose 3% versus the second quarter. Both rig and well counts remain down about 50% from where they were last year.

External forecasts for upstream spending for 2016 have been revised to be less negative and with 2017 slightly more positive. Flow markets on our Industrial applications remain stable, but Oil & Gas flow and OpEx markets continue to be weak.

Orders for Oil & Gas of $2.5 billion were down 21% in the quarter, with equipment down 22% and services down 21%. All segments saw equipment declines except Subsea and Drilling, which was up 33% on easier comparisons to last year.

Service orders declined in all segments.

Backlog ended the quarter at $21.6 billion, which is down 7%. Equipment backlog down 32% versus last year while services backlog grew 14%.

Revenues in the quarter of $3 billion were down 25%, with equipment revenue down 33%. All segments were lower except Downstream Technologies, which grew 16% in the third quarter. Service revenues were down 16% with declines across all the segments.

Op profit of $353 million was down 42%, driven by lower volume, price, and foreign exchange, partially offset by cost execution. The business took out $245 million of costs in the quarter.

Total cost-out year-to-date is $535 million. The team expects to deliver total cost-out for the year of between $700 million and $800 million, adjusting for cost actions related to volume.

The business remains on track for op profit down about 30% excluding the effects of foreign exchange. No doubt it's an incredibly tough environment, but Lorenzo and the team have executed well on their cost-out initiatives and capturing available growth opportunities as they present themselves.

On Healthcare, the Healthcare business had another solid quarter. Orders in the quarter grew 6% to $4.8 billion.

In terms of geography, orders grew organically 5% in the US, 6% in European, and 10% in Asia Pacific. China orders were up 2%, but up 13% excluding the KUBio bioprocess facility order we took last year.

In terms of business lines, Healthcare systems organic orders were up 8%, driven by strength in Imaging, up 12% on strong CT and MI, and Ultrasound higher by 11%. Life Science orders grew 4% organically with bioprocess and core imaging both up 5%. Excluding the prior year KUBio order I just referred to, Life Science orders grew 11% with bioprocess higher by 22%.

Revenues in the quarter of $4.5 billion were up 5%. Healthcare systems revenues grew 4% organic, with Ultrasound higher by 13%, partly offset by Imaging down 1%. Life Sciences grew revenues 11% organically.

Op profit was up 10% in the third quarter and up 12% organically. Strong volume and cost performance more than offset price and program spending.

Margin rates expanded 70 basis points in the quarter. Gross margins improved 90 basis points in the quarter.

Healthcare continues to execute. Through three quarters they've delivered over $300 million against their $350 million of cost-out commitments for the year. We expect they will outperform the 50 basis point margin goal.

China growth continues to improve, with public tender activity up 20% in the third quarter. And the US and Europe markets are seeing stable growth.

Next is Transportation. The difficult cycle for Transportation continued in the third quarter. North American carloads were down 5.4%, driven by coal lower by 14.6%, petroleum down 23.4%. Intermodal volume was down 3.6%.

August and September volumes did improve versus July but are still well below 2015. We expect the trend to continue through year-end.

Orders in the third quarter of $695 million were down 21% and down 15% organically. Equipment orders of $109 million were down 23%, but up 18% organically on orders for five locomotives versus three a year ago.

Service orders of $586 million were down 21%, driven by lower local parts and mining. Backlog ended the quarter at $19.9 billion, which is essentially flat with last year.

Revenues in the third quarter of $1.249 billion were down 22%, down 17% organically, with equipment lower by 22% and services lower by 13%. We shipped 200 locos versus 259 a year ago.

Op profit of $309 million was down 18% on lower volume, partially offset by positive mix and the benefits of restructuring. Gross margins improved 180 basis points, and op profit margins were higher by 90 basis points.

The business continues to grow its international business as demand in the US continues to be a challenge, while driving hard on product and service costs. We expect total-year locomotive shipments of between 740 and 750 units.

Energy Connections -- Energy Connections & Lighting, this is the first new presentation of the two segments together. The businesses have not changed; we are reporting orders for Lighting for the first time.

Lighting really has two businesses, the Current business and the legacy core Lighting business, which we are in the process of restructuring. The Current business represents professional lighting sales for North America and other key countries, energy management & control systems and software. Reported orders and backlog apply to only the Current business, as these are longer-term projects.

Orders for the segment totaled $3 billion, with Energy Connection orders of $2.7 billion and Current orders of $328 million. Energy Connections orders were up 31% reported, with core GE orders of $1.4 billion, down 14% organically.

Power Conversion was down 33% on tough comparison to last year, when our Renewables orders were up 4 times.

Industrial Solutions orders were up 6% in a market that was down 4% in North America. Grid orders totaled $1.4 billion in the quarter.

Total backlog finished at $11.5 billion. Current orders of $328 million were driven by LED retrofits, including large orders from financial services.

Revenues for Energy Connections were $2.6 billion, up 45%. Core Energy Connection revenues were down 9% organic, with Power Conversion down 12% and Industrial Solutions down 7%. Grid revenues totaled $1.4 billion.

Lighting revenues were down 8%, with Current growing revenues 10% and legacy Lighting down 22% as the non-LED market continues to decline and we restructure and exit many markets.

Operating profit in the quarter of $48 million was driven by $63 million of earnings from Energy Connections and a $15 million loss in Lighting. Energy Connections had $64 million of profit from Grid and a small loss in the core. The core was driven by lower volume, foreign exchange, and mix, partly offset by value gap.

The Lighting loss was driven by a buildout of our Current business. The segment continues to make incremental progress, improving each of the last three quarters, and we expect the fourth quarter will improve again relative to the third quarter.

Next I'll cover GE Capital. Our Vertical businesses earned $466 million in this quarter, up 33% from prior year, driven by lower impairments in Energy Finance, partially offset by lower gains.

GECAS, Energy Finance, and Industrial Finance all had strong quarters, and overall portfolio quality remains stable. In the third quarter, the Verticals funded $2.8 billion of unbooked volume and enabled $4.2 billion of Industrial orders.

Other continuing operations generated a $441 million loss in the quarter, principally driven by excess interest expense, restructuring costs related to portfolio transformation, and headquarter operating cost, partially offset by tax benefits. These costs will continue to come down as excess debt matures and we right-size the organization structure.

Discontinued operations incurred a loss of $100 million, largely driven by marks on held-for-sale assets, partially offset by tax benefits and other items. Overall, GE Capital reported a $78 million loss.

We ended the quarter with $103 billion of ENI excluding liquidity, with continuing ENI of $79 billion. Liquidity at the end of the quarter was $57 billion.

Asset sales remained ahead of plan. During the quarter, we closed $16 billion of transactions, bringing the total closed transactions through the end of the quarter to $173 billion.

We have signed agreements for an additional $12 billion in the third quarter, bringing the total signings to $193 billion. We expect to be largely done with signings by the end of the year, and we're on track for the 1.1x price-to-tangible book that we originally estimated.

GE Capital paid $5 billion of dividends during the third quarter. In October, they paid an additional $2 billion, and we expect an incremental $2 billion dividend before the end of the year for a total of $20 billion in 2016 versus the $18 billion target.

Overall, the Capital team continued to execute ahead of schedule on all aspects of the plan that we shared with you 18 months ago. We expect to be largely complete by the end of 2016.

And with that, I'll turn it back to Jeff.

Jeff Immelt - ***General Electric Company - Chairman, CEO***

Thanks, Jeff. Now let me punch through our operating metrics for 2016. We're narrowing the EPS range to $1.48 to $1.52. In this number, we're offsetting $0.04 to $0.06 of FX headwind.

We expect organic growth to be positive but near the low end of the range, and our corporate cost control and margin execution remain very strong. Free cash flow plus dispositions will be above plan, mainly due to GE Capital dividends. All other cash metrics remain on track.

We're increasing the buyback from $18 billion to $22 billion. This makes the total cash returned to investors $30 billion for the year, ahead of plan. So in a time of volatility, the GE model is performing.

Finally, let me reflect on the Company's earnings going forward. When we launched the Capital repositioning in April of 2015, we established the goal of $2 EPS by 2018. Since then our outlook for Oil & Gas has worsened, and foreign exchange has hurt most global companies, and GE is no exception.

At the same time, the rest of GE is performing well, and we see that continuing in the future. We should be even better than our original plan for buyback, and Alstom continues to perform at or above plan.

Going forward, we plan to drive out more cost in supply chain, program spend around product launches, and corporate. And we will continue to grow our funding on digital transformation.

Incremental leverage exists, with the idea of pushing beyond our goals. We'll give you our 2017 outlook in December, but all of our metrics for compensation purposes will continue to be linked to $2 of EPS in 2018. We're aligned with investors.

Matt, back over to you for questions.

Matt Cribbins - ***General Electric Company - VP Investor Communications***

Thanks, Jeff. I'll now ask that the operator opens the lines for questions.

QUESTION AND ANSWER

Operator

(Operator Instructions) Scott Davis, Barclays.

Scott Davis - ***Barclays Capital - Analyst***

Hi, good morning, guys. Your final comments, Jeff, were interesting. I mean, you're not backing off the $2 number, which is a relief to some of us. But your comment about potentially stretching leverage, can you be a little bit more clear on what that means?

Is there a comfort level around ratios that you have now that's increased versus maybe where you were before? Is there a comfort level around M&A and the stuff that's available? Just give us a little bit more there, please.

Jeff Immelt - ***General Electric Company - Chairman, CEO***

You know, Scott, really, I didn't mean to change at all the way we've thought about leverage in the past. I think what I tried to differentiate is the build to $2 has always assumed without leverage that we -- the extent to which we do incremental buyback or M&A, it should push above that point. So that was really the only context for the point on leverage.

Scott Davis - ***Barclays Capital - Analyst***

Okay, so still a $2-plus-plus in using your terminology?

Jeff Immelt - ***General Electric Company - Chairman, CEO***

Yes. No, in other words, we're trying to do the build -- our intention is to not change the bridge the way we've articulated over the last couple years.

Scott Davis *- Barclays Capital - Analyst*

Okay, that's helpful. Then just as a quick follow-up, your Energy Connections is not a business I know very well, but the margin is pretty weak there. You said you're doing restructuring. What do you think a pro forma margin looks like in that business once you are done with your restructuring?

Jeff Bornstein *- General Electric Company - SVP, CFO*

Well, here's what I'd say, Scott. It's really three businesses, and it starts with the Grid business, which is a combination of our legacy Grid business and Alstom's business. That business I think is -- or I think we think is performing -- actually quite well. It earned $64 million in the quarter; it's delivering on all the Alstom synergies that we talked about it delivering.

And then you have the Power Conversion business, which has a higher concentration in Oil & Gas historically than the balance of Energy Connections. That part of the Power Conversion business has been enormously challenged.

We've replaced a lot of that volume with Renewables volume. The Renewables volume is not as profitable as what we're doing in Oil & Gas.

So Power Conversion has been a challenge. We've been breakeven to lose a little bit of money here through the first three quarters.

And then that leaves you with our legacy Industrial Solutions business, which had a reasonably -- a good orders quarter. I mentioned earlier up 6% on orders in a North American market that feels like it was down 4%.

But on execution and revenue in the quarter it was less than what we expected it to deliver. That business ought to earn between $100 million and $140 million a year.

The Power Conversion business, until oil turns around, I think is going to be a little bit of a challenge; and we have a good outlook for our Grid business. So when we think about 2017, we expect the Energy Connections business to be a meaningful contributor to earnings growth when we move from this year to next.

Operator

(Operator Instructions) Steve Tusa, JPMorgan.

Steve Tusa *- JPMorgan - Analyst*

Hey, guys; good morning. Just to be clear on the new profit guide for the fourth quarter -- for the year, I think the Street's around $18 billion. I think backing into using your free cash flow guidance and backing into what that would imply for a profit guide for the fourth quarter, somewhere in the $6 billion to $6.5 billion range: Is that the right number?

Jeff Immelt *- General Electric Company - Chairman, CEO*

I think that's about right.

Jeff Bornstein *- General Electric Company - SVP, CFO*

That's within a row of apples, Steve. That's what we are executing to.

Jeff Immelt *- General Electric Company - Chairman, CEO*

Yes, I think that's about right.

Operator

Julian Mitchell, Credit Suisse.

Julian Mitchell - ***Credit Suisse - Analyst***

Hi, thank you very much. I just wanted to follow up on the components exactly behind the revenue growth guidance reduction. What proportion are coming from, say, Transport or Power?

And then when you're thinking about the scope for recovery, timing and magnitude, how are you communicating on that in light of the weak ongoing order intake?

Jeff Immelt - ***General Electric Company - Chairman, CEO***

Well, I think the revenue is primarily Oil & Gas, Julian, with maybe just a touch in some of the other ones. But I would think about it in that context.

Then, again, I would come back and talk through backlog growing; service backlog particularly strong as being a big driver of organic growth; and the fact that underlying Alstom orders that will play out in 2017 and beyond are actually quite strong as well. So I view orders as being more or less in line with our expectations as a buildup for what we have to do in 2017 and 2018.

Then Q4 I think we believe will be a pretty good orders quarter as well. I don't know, Jeff, you want to add to that?

Jeff Bornstein - ***General Electric Company - SVP, CFO***

Yes, let me address revenue. When you think about the year, we had 1% organic revenue in the third quarter.

When you exclude Oil & Gas, if you get back to the rest of the portfolio, in the third quarter our organic revenue grew 6%. On a third quarter year-to-date basis it grew 4%. And we expect it to be really solid, ex-Oil & Gas, really solid organic revenue growth in the fourth quarter.

So moving from 2% to 4%, to 0% to 2% is mostly about where we think the revenue number is going to end up with Oil & Gas. Having said all of that, we've not changed our outlook on Oil & Gas op profit in the year, ex-foreign exchange. We still think, plus or minus, that's about 30% down.

Operator

Jeff Sprague, Vertical Research Partners.

Jeff Sprague - ***Vertical Research Partners - Analyst***

Thank you. Good morning, gentlemen. I just want to go, Jeff -- either Jeff, really -- to the extent that you can provide color on just how to think about the underpinnings of the bridge to 2018. What I mean by that is we're still at $1.50 midpoint for 2016, but we're now looking at segment OP $1 billion lower.

So we've got lower tax and other things going on; we see this change in goodwill at Alstom; I don't know if there's other moving parts. But can you give us any thoughts on the OP ramp in your business to 2018?

Jeff Immelt - ***General Electric Company - Chairman, CEO***

Why don't I start so what I would say, Jeff, if you just context in 2016, I'd say headwind in Oil & Gas, headwind in foreign exchange in 2016. We think some of the foreign exchange actually comes back our way in 2017 and 2018.

We think Oil & Gas is going to continue --as you look forward --to be a drag. Our team is doing a really good job; we are executing well; we're taking cost out. But we're not really forecasting a hockey stick in Oil & Gas.

The rest of the Industrial portfolio really, which grew 8% ex-FX, I think it's well positioned to continue to drive good solid growth over the next few years.

Alstom is on plan. We think the Alstom return still looks solid and the Alstom earnings outlook for 2017 and 2018 still looks solid.

We're going to continue to execute on the buyback, right? So those are the main components.

Then what I would add to that, Jeff, is just a context of driving corporate costs lower, continuing to work hard on incremental opportunities on supply chain that we see, and accelerating progress in gross margins. So I think the way you've got to think about it is incremental intensity around cost that we see in our line of sight, sustained good growth in our Industrial portfolio; some of the FX headwind we've seen should come back to us over the next few years, just by the way the contracts are written; buyback at or ahead of plan. And that realizes the context for an Oil & Gas business that we are executing well, but we're trying to be prudent about how we think about it over the next couple years.

Jeff Bornstein - ***General Electric Company - SVP, CFO***

I would just add, when you think about that framework where we initially put it together, clearly Oil & Gas is the single biggest challenge against that framework. And we're going to be much more aggressive around costs as a result of it.

The rest of the portfolio I think is as Jeff described it. And we're going to try to be a little bit better on buyback.

Jeff Immelt - ***General Electric Company - Chairman, CEO***

I think the last point, guys, I just would make the point: the guidance range of $1.48 to $1.52 this year, that's with us eating $0.04 to $0.06 a share of FX in that number, right? So I think underlying execution in the context of where we are is still pretty strong this year.

Operator

Andrew Kaplowitz, Citigroup.

Andrew Kaplowitz - ***Citigroup - Analyst***

Good morning, guys. Jeff, you talked last quarter about services order growth rising to the mid-single digits in the second half of the year, and organic orders did turn positive this quarter after being negative last quarter, but were still pretty low at plus 1%. Do you still see a sustainable mid single-digit growth in orders given continued weakness in Oil & Gas and Transportation?

Is the real issue still just the timing of AGP orders? And what are the chances that AGP orders slip in the current environment?

Jeff Bornstein - ***General Electric Company - SVP, CFO***

Andrew, I'd say a couple things. Firstly on AGPs, I think we feel reasonably confident about the guide that we've given you on 135 to 150 for the year. So I don't think that at the moment is a point of concern for us.

We did talk about mid to high single-digit service orders in the second half of the year. We still see that in the fourth quarter; we see mid to high single-digit service orders organically.

What's really changed versus what we said at the end of the second quarter has been around equipment, and most of that change in equipment has been about Oil & Gas. We're about $3 billion lower on Oil & Gas orders, and that's really about three projects. It's really three distinct projects that have been delayed or suspended, has changed our outlook.

So equipment is going to be softer than what we said at the end of the second quarter. I don't think there's any change to how we see service orders here.

Andrew Kaplowitz - ***Citigroup - Analyst***

Good; thanks, guys.

Operator

Steven Winoker, Bernstein.

Steven Winoker - ***Bernstein - Analyst***

Thanks and good morning, all. Hey, I just want to go back to Oil & Gas. Last December you guys had talked about more room in the $1 billion of cost-out, which was like $600 million in 2015, $400 million in 2016; and you thought you might be able to raise that $400 million to $800 million. Sounds like you've just said you are on track to that for this year.

But as I start looking at this worsening environment, you say you're going to continue to be aggressive in costs. It starts to really raise the question for me of how much more you can do here, other than ongoing Lean and productivity in terms of real, major thinning out going forward to offset what are continuing really significant pressures. I know you've talked about it generally, but any more precision on that front as we look further than the fourth quarter would be helpful.

Jeff Bornstein - ***General Electric Company - SVP, CFO***

Steve, your math is exactly right. So we said -- I think I said $700 million to $800 million of incremental cost-out this year in Oil & Gas. Through three quarters they've delivered about $530 million of that.

They will deliver all the actions to get to $800 million. We might not realize all $800 million, because some of those savings were volume related. In other words, if the volume is not there, you don't actually get to eat the cost savings; although when the volume comes back it will absolutely be there.

I think Lorenzo and the team would say there are additional incremental cost actions we're going to continue to work into 2017. I think you're right; I think the depth at which you can continue to cut cost is somewhat limited. But there is still incremental additional actions that the team can take.

I think our comment on more cost actions generally is more of a statement across the entirety of the Company, given what's happened in Oil & Gas. Around program costs, structure, corporate, there are more opportunities that we're going to run to, to try to compensate for the fact that Oil & Gas is, we expect, going to earn less than what we originally thought when we gave you the $2 framework 18 months ago.

Jeff Immelt - ***General Electric Company - Chairman, CEO***

I think Jeff said it exactly right. And then, what I would say, Steve, is look: our overall context for Oil & Gas hasn't changed. We still think it's a really good GE business, leverages the GE Store, and I have every confidence we're going to come out of the cycle better than we went in. But I think I would echo what Jeff said.

I think we continue to see good opportunities in corporate. We also continue to see good opportunities around our footprint and supply chain.

We've had a chance now to look across the Alstom and GE factory base and things like that, and we see some incremental opportunities that we think are going to allow us both from a sourcing standpoint and a supply chain standpoint; and we'll be able to do that and still do the investments we need to make in digital as we go forward. So I think that's the right context.

Operator

Shannon O'Callaghan, UBS.

Shannon O'Callaghan - ***UBS - Analyst***

Morning, guys. On cash flow, progress collections I think you said was still a pressure. It would seem like that should be close to bottoming.

What's that going to be this year, and where do you see that heading? And just any other metrics or dynamics you've been working on cash flow-wise in 2Q, just maybe give us an update.

Jeff Bornstein - ***General Electric Company - SVP, CFO***

Well, progress was a bit of a challenge in the third quarter versus expectation. We definitely delivered better working capital performance in the third quarter. Progress is a little bit of drag; that reflects equipment orders.

And that's largely where we thought Oil & Gas might be in third and fourth quarter and where we see them now. We had, as I mentioned earlier, two or three big orders push meaningfully -- meaningful sized orders that would have brought a lot of cash with it.

We're down year to date. The fourth quarter will be better than the run rate through the first three quarters, and we expect progress to actually contribute in the fourth quarter to our CFOA performance that we talked about earlier.

Shannon O'Callaghan - ***UBS - Analyst***

Okay, thanks.

Operator

Andrew Obin, Bank of America Merrill Lynch.

Andrew Obin - ***BofA Merrill Lynch - Analyst***

Yes, good morning. Not going to ask you a question on Oil & Gas; just to shift a little bit to Predix. In your presentation, you say that the number of partners has quadrupled on a sequential basis. Are there any revenue and profit implications from that going to next year? Because it does seem to be running quite a bit ahead of expectations.

Jeff Immelt - ***General Electric Company - Chairman, CEO***

I wouldn't change it yet, Andrew. We'll talk more about this at Minds + Machines in a little while. But clearly on the partners side with Predix, I think we're ahead of where we had envisioned. But we'll update those numbers in the middle of November when we go to Minds + Machines.

Andrew Obin - ***BofA Merrill Lynch - Analyst***

But partners does have revenue implications, right?

Jeff Immelt - ***General Electric Company - Chairman, CEO***

Oh, for sure. No, seriously, for instance, we partner with people; they immediately add developers, and they have revenue goals. So we expect this to be a good boost to how we think about revenue over Predix over both short- and long-term.

Andrew Obin - ***BofA Merrill Lynch - Analyst***

Thank you.

Jeff Bornstein - ***General Electric Company - SVP, CFO***

Yes, I would just add we had a goal in the year to sign 50 partners; we're over 200. That's really positive momentum both from a technology perspective and ultimately longer-term in terms of actually generating orders and revenue.

We're way ahead on where we thought we'd be on people developing on Predix. As Jeff said, all these metrics will be updated at Minds + Machines, but I think there is reasonably good momentum here.

Operator

Joe Ritchie, Goldman Sachs.

Joe Ritchie - ***Goldman Sachs - Analyst***

Thanks; good morning, everyone. I wanted to go back to Jeff's question from earlier. When I look at what you guys gave out in EPG, you had about 5% Industrial growth ex-Alstom coming through in the $2 earnings bridge. So we're running this year, call it down mid to high single digits.

So have you guys updated that number? Is that number going to be running closer to 2% to 3% in that bridge?

And then my second question really is around the buybacks. The buybacks are running ahead of schedule. I think you've done about $25 billion by the end of this year of the $35 billion. So is there upside to that number? Thank you.

Jeff Bornstein - ***General Electric Company - SVP, CFO***

We will update you on the bridge. Jeff will update you on the bridge when we get to EPG --

Jeff Immelt - ***General Electric Company - Chairman, CEO***

(multiple speakers) to year end.

Jeff Bornstein - ***General Electric Company - SVP, CFO***

Yes, I'm sorry. The outlook meeting in December, we'll go back through the bridge; we'll go back through all three pieces that we've shared with you before. I don't think we see at the moment any real change in Alstom.

There may be -- we may be a bit better on buyback accretion, which is a partial answer to your second question, and we'll walk you through the dynamics and the organic portfolio growth over that period of time. So more detail to come on that.

On buyback, I think we're absolutely ahead of plan. I think the $4 billion incremental buyback here in the year I think is important.

As you know, we're constantly going back and evaluating our capital allocation plans, most of which we've shared with you, on what makes sense. And to the extent it makes sense to be more aggressive with buyback, we will do that.

On the leverage question, we're mostly focused around M&A. So I wouldn't read through on that that leverage equals buyback. I think that we had -- in our capital allocation plan we had capital available for M&A, buyback, and other reasons; and right now we are being a little bit more aggressive in buyback.

Joe Ritchie *- Goldman Sachs - Analyst*

Got it. Thank you.

Operator

Deane Dray, RBC.

Deane Dray *- RBC Capital Markets - Analyst*

Thank you; good morning, everyone. Hey, like to stay on that capital allocation theme, Jeff Bornstein, right where you finished off there. Because the plan had been to toggle between buybacks and M&A depending on the returns.

Are you implying at all that there's fewer opportunities in M&A today versus the attractiveness in GE stock in terms of -- increasing the buyback?

Then also on M&A, maybe some additional color on the LM wind turbine blade acquisition. Is this the same derisking of the supply chain we saw in Avio? Maybe expand on that, why it gives you better strength in emerging markets.

Jeff Bornstein *- General Electric Company - SVP, CFO*

Yes. On the capital allocation question, we're not changing any way in terms of how we're thinking about the trade between M&A and buyback. Certainly with the stock at $28 or $29, the buyback looks quite attractive to us.

We're not short ideas on M&A, I don't think. We're constantly evaluating M&A opportunities. I think just what we've announced recently here between SLM and Arcam, which is an investment that's going to have a huge payback longer-term, and most recently the LM acquisition, we are continuing to evaluate M&A opportunity.

So I wouldn't read through as we're short ideas on M&A. We're just, I think -- we'd like to be more aggressive around the stock given the outperformance by GE Capital in terms of what they are returning to us and operationally what we're able to do through our capital allocation model that was unrelated to M&A and leverage. So, Jeff do you want to --?

Jeff Immelt *- General Electric Company - Chairman, CEO*

I would just say, Deane, I think Avio is the right way to think about LM. We see good opportunities in the supply chain. We think the next few years the visibility we have on wind is pretty solid in terms of PTC and global demand. We think between us and LM we've got good technology that can really innovate in the industry.

And what we saw on Avio is we were able to keep the non-GE base in Avio, and we think we can do the same thing with LM.

Lastly, your question -- it really bolsters us in China and India and a lot of the emerging markets where we see growth potential for us in the future. So we look at it as a reasonably low-risk investment where a lot of the levers are in our control and we have, I think, a disproportionate upside if we execute well.

Deane Dray - ***RBC Capital Markets - Analyst***

Thank you.

Operator

Nigel Coe, Morgan Stanley.

Nigel Coe - ***Morgan Stanley - Analyst***

Thanks for fitting me in here, guys. Good morning. First of all, just a clarification on the buyback. The $4 billion extra this year, that's not a pullforward from next year? We're still looking at 14, 15 for next year.

But my primary question is on the margin side. Obviously good news on gross margins, good news from price/cost. But what's driving the SG&A inflation, because there's about 150 bps of higher SG&A? So if you can just address those two questions, thanks.

Jeff Bornstein - ***General Electric Company - SVP, CFO***

Okay, so first on buyback. Let me be absolutely clear. The $4 billion buyback is an increase of the model we gave you that went through 2018. We're buying $4 billion more stock than we said we would when we gave you the plan through 2018.

On SG&A: in the third quarter, structural SG&A was up 1%. That was 12.6% of sales. Third-quarter year-to-date we're actually down 4%, about 13% of sales.

It was a bit of a drag in the quarter, partly because SG&A was up 1% and volume was essentially down slightly on a calculation basis. So it ended up being about a 10 basis point drag in the quarter.

Other inflation that sits in the Other line is associated with inflation on base cost, and most of that is EOP. There's other indirect expenses that also incur inflation, and that's what you see on that line.

Other inflation ex-FX, if you take out the impact of FX -- so some of those marks go through the Other line in that walk -- was a negative 60 basis points as opposed to what we showed you in the walk.

Nigel Coe - ***Morgan Stanley - Analyst***

Okay, that's helpful. Thanks.

Matt Cribbins - ***General Electric Company - VP Investor Communications***

Okay. A couple quick announcements, Jeff, before you wrap up. The replay of today's call will be available this afternoon on our Investor website.

We will be holding the Minds + Machines conference out in San Francisco on November 15 and our annual outlook meeting on December 14. We'll be holding our fourth-quarter earnings call on January 20. Jeff?

Jeff Immelt - ***General Electric Company - Chairman, CEO***

Great, Matt; thanks. Just a couple points to wrap up.

I think we plan to have a solid Q4 and wrap up a really solid 2016. Looking forward, I think we're being realistic about the environment in the resource sector and Oil & Gas. But don't be mistaken; we still think this is a core GE business and one where our team is managing it extremely well through the cycle.

The rest of GE is executing very well. Alstom remains on track in 2017 and 2018. The buyback is ahead of plan.

We've got a really good line of sight to incrementally take more cost out of the Company and be even more efficient. And all of our compensation plans, whether it's the long-term incentive plan or the AIP, which is in our IC plan, all tied to the bridge that we showed you in 2015 and where we march in 2016, 2017, 2018. So we're aligned with investors, Matt, and I think we are quite confident in the performance of the Company.

Matt Cribbins - ***General Electric Company - VP Investor Communications***

Great. Thank you for joining.

Operator

This concludes your conference call. Thank you for your participation today. You may now disconnect.