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GE - Q1 2013 General Electric Co. Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the General Electric first-quarter 2013 earnings conference call. At this time, all participants are in a listen-only mode. My name is Derek and I will be your conference coordinator for 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, Trevor Schauenberg, Vice President of Investor Communications. Please proceed.

Trevor Schauenberg - ***General Electric Company - VP, Investor Communications***

Thank you, Derek. Good morning and welcome, everyone. We are pleased to host today's first-quarter webcast. Regarding the materials for this webcast, we issued the press release earlier this morning and the presentation slides are available via the webcast. The slides are also available for download and printing on our website at www.ge.com/investor.

As always, 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. Those elements can change as the world changes. Please interpret them in that light.

For today's webcast, we have our Chairman and CEO, Jeff Immelt, and our Vice-Chairman and CFO, Keith Sherin. Now I would like to turn it over to our Chairman and CEO, Jeff Immelt.

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

Thanks, Trevor and good morning, everybody. Hey, look, in the first quarter, our market conditions proved to be volatile. Most of our emerging markets, including China, remain strong. However, the US indicators were mixed. While housing improved, some of our shorter-cycle energy segments experienced push-outs from March. We plan for Europe to be similar to 2012, down again, but it was even weaker than we had expected. And finally, we had an FX headwind in our Oil & Gas business.

Based on this backdrop, our results were mixed. Our EPS was $0.39, up 15%. This was actually $0.35 because not all of the NBCU gain was offset by restructuring in the quarter. Leading indicators in our longer-cycle infrastructure businesses were encouraging with orders up 3%, which is 6% ex-Wind. Equipment orders were up 10% and we had a 1.3 times book-to-bill ratio in the quarter. So this gives us confidence in our delivery schedule for the second half and beyond.

Power & Water was a drag on our overall results. Wind and Thermal units were down in the first quarter, but that was expected. We experienced incremental pressure in European services and based on our current backlog, however, we expect shipments to significantly improve in the second half and we will show you a detailed chart with the financial profile for the remainder of the year.

Finally, GE Capital delivered a solid quarter, up 9%, while they continue to shrink their non-core assets, which were down $17 billion in the quarter versus previous years.

We remain focused on our operating priorities. We were able to accelerate restructuring actions and we have taken out $200 million of structural SG&A costs in the first quarter, well on our way to at least a $1 billion reduction in 2013.

Margins were negatively impacted by some of the revenue shortfalls in Europe in Power & Water, but we remain on track to deliver the 70 basis points margin expansion this year and we will show you more details later in the deck.

We finished the quarter with $90 billion of consolidated cash and $22 billion of cash at the parent level. We returned $3.9 billion of cash to investors in the first quarter, including $2 billion of dividends and $1.9 billion of share buyback. We announced the intent to purchase Lufkin, a $3 billion bolt-on acquisition, which broadens our Artificial Lift portfolio in Oil & Gas. For perspective, GE's Artificial Lift business grew by 12% in the quarter. We expect to close this transaction and the previously announced Avio deal in the second half of this year and both deals will be accretive to Industrial earnings in 2014.

So in summary, our Industrial segment profits were about $200 million below our expectations. And that really was a function of Europe, which worsened during the quarter and some short-cycle push-outs from March into the second quarter. Now we were able to offset that gap by doing a good job on corporate costs and slightly better GE Capital performance. So that is really a summary of the first quarter.

Overall orders were a good story, up 3% overall and 6% ex-Wind. Equipment orders grew by 10%. Oil & Gas and Aviation were particularly strong and Power & Water ex-Wind grew by 10%. We ended the quarter with $216 billion in backlog, which is a record for GE. Orders pricing was up 0.6 points in line with expectations.

Many growth markets were strong. China was up 67%, Latin America was up 44%, Middle East and Northern Africa were up 22% and Sub-Saharan Africa were up 41%.

Service orders were mixed. Our investors closely track commercial aviation spares and they grew by 10% in the quarter. That is good news. And while Power & Water service orders declined, commitments increased, which helped future periods. So the orders momentum and Equipment and backlog expansion, I think, positions us well for the second half.

Revenue overall was challenged. We knew the first quarter was going to be tough. Overall, our organic growth was down 6 points, but that really was a function of Power & Water. Organic growth was up 2 points, excluding that segment, which is going through a tough cycle.

Our revenue grew by more than 10% in five of nine growth regions, including Middle East North Africa and Turkey, Sub-Saharan Africa, Australia & New Zealand, ASEAN and China. We continue to see strength in many regions and believe that growth markets will stay on track for the year. We grew backlog in service and margins in services. Europe was a drag on service revenue overall knocking 5 points off our growth. But meanwhile, our Oil & Gas service revenue was up 10%.

Our investments in R&D continue to pay off. We were selected by Boeing as sole-source for the next generation 777. We're launching the world's most energy-efficient wind turbine. Our leadership in locomotive technology is at the forefront of potential LNG conversions. We continue to focus on new NPIs in healthcare and appliances and we have a solid pipeline of advanced gas path upgrades worth about $500 million, which should help Power Gen services in the balance of the year.

The biggest driver of Industrial segment profit is the Power & Water shipment profile that we have mentioned to you before. In the first quarter, their operating profit was down 39%, driven by significantly lower gas turbine, wind turbine and aeroderivative unit shipments. In Europe, the service business was down about 22% and was the primary cause of total service revenues being down.

Despite their lower volume, the team delivered 70 basis points of services margin improvement and overall, the team did a nice job in reducing cost, but volume decline was far greater pressuring the margin rates.

We expect the second-quarter unit shipment volume to improve slightly, but it will still be negative versus last year and services should be positive and continue to grow margin rates in the quarter and throughout the year. The second-half volume is supported by our $9.5 billion Equipment backlog and will be up significantly in both Wind and Aero from the first half. Services will also be up in the second half and we have better comps versus Europe. The higher volume leverage, coupled with Service margin growth, will drive an improved margin rate. In addition, Steve and the team are working to deliver $250 million of structural cost improvements throughout the year. So these efforts should deliver a flat margin rate for the total year.

On total margins, the Industrial margin rate was 12.9% for the quarter, down about 80 basis points, but up 40 basis points excluding the Power & Water cycle. We saw a solid improvement in four of our businesses driven by a strong value gap and cost execution. Oil & Gas was negatively impacted by foreign exchange, but some of that will come back during the year. And we are planning on four businesses being above a 70 basis points improvement overall.

If you look at the first-quarter and total year dynamics, you will see that we don't expect any significant impact from mix and the R&D drag from the first quarter is mostly timing in Aviation and Oil & Gas and will be neutral by the end of the year. The value gap was strong in the first quarter and we anticipate it continuing to strengthen throughout the year. And the biggest negative in the quarter was the volume leverage from Power & Water and as I said, it will be tailwind in the second half of the year.

As I've said before, we went into the year with a plan that would deliver more than 70 basis points of margin expansion. Given the first-quarter dynamics and the short-cycle energy-related volume pressure, we have eaten into that hedge, but we still have an internal plan for 90 basis points of improvement, more than the 70 basis points that we have told all of you about. And that improvement is going to be driven by a change in Power & Water shipment profile, Services margin growth and accelerated cost-out programs. And in many ways, our margin progression fits the pattern of previous years.

Cash in the quarter was impacted about $1.5 billion by shipment timing and a couple unusual items. We grew working capital by $800 million to support Power & Water and commercial engine shipments later in the year. In addition, we had an impact of about $800 million in incentive and tax payout timing. Not included in the number and not in the numbers, a capital dividend of about $450 million, which will be realized in second-quarter CFOA.

The Company has a very strong cash position with $90 billion in consolidated cash and $22 billion at the parent and we have no change in our overall CFOA framework for the year. We remain committed to returning $18 billion to investors in 2013 through dividends and buybacks. So now let me turn it over to Keith and give you more details about the segments.

Keith Sherin *- General Electric Company - Vice Chairman & CFO*

All right. Thanks, Jeff. I will start with the first-quarter summary. We had continuing operations revenues of $35 billion and that was flat with last year. Industrial sales of $22.3 billion are down 6% driven by Power & Water, as you can see on the right side. GE Capital revenues of $11.5 billion were up 2% and both the total and the capital revenues include the benefit of the NBCU gain.

Operating earnings of $4.1 billion were up 14%. Operating earnings per share of $0.39 were up 15% and if you adjust for the net benefit of $0.04 from the gain exceeding restructuring, the operating EPS would have been $0.35 and I will cover that on the next page.

Continuing EPS includes the impact of our non-operating pension and net earnings per share includes the impact of discontinued operations, which I am also going to cover on the next page.

As Jeff covered, CFOA was $200 million driven by the working capital investments, incentive payments and tax timing. For taxes, the GE rate of 20% for the quarter is in line with the rate of about 20% that we expect for GE for the year, but there could be some variability from quarter-to-quarter. And on GE Capital, the tax rate was 4% and that rate is down because, in the fiscal cliff resolution, the active financing exception was retroactively extended, which gave us a benefit in the first quarter. Because of expected additional asset reduction opportunities, we currently expect to see a mid-single digit GE Capital rate rather than the 10% rate we previously forecast.

On the right side of the page, you can see the segment results. Total Industrial segment profit was down 11%. That was driven by Power & Water, as you can see. Segment profit for the other Industrial businesses was up 6% and we expect Power & Water, Oil & Gas, Energy Management to all improve as the year progresses and I will cover each of the segments in more detail.

Before I go through the business results, I am going to take you through the other items from the first quarter. Starting with Industrial, as you know, we realized a $1.1 billion pretax gain related to the NBCU transaction and that resulted in an $0.08 after-tax EPS benefit. The Industrial NBCU gain was partially offset by $0.04 of restructuring and other items in the quarter. The charges related primarily to our cost structure improvements and our ongoing simplification actions across the Company and the amounts by business are Power & Water 94, Energy Management 60, Healthcare 48, Aviation 46, Oil & Gas 42, H&BS 38 and Corporate 46.

On the bottom of the page, you will see the restructuring plan for the rest of the year. We are planning to offset the additional $0.04 related to the NBCU gain with $0.02 of restructuring in second quarter and a penny each in the third and fourth quarter based on the timing of the restructuring actions being completed and approved.

Moving to GE Capital, we had $0.05 of benefit related to the sale of the 30 Rock real estate assets and those gains were offset in two categories. First, we had $0.02 of charges related to the platform exits and restructuring actions. In the real estate business, we had an after-tax charge for $123 million that related to our planned exit of another $2.3 billion of equity assets. In addition, we had $53 million of charges related to cost reductions and non-core asset exits in the rest of GE Capital.

The second category is we had $0.03 related to consumer reserves. In the first quarter, we finalized our updates to our reserve models in the US retail business. For a more granular segmentation of loss types, you know we have been working on that all year last year. In the quarter, this included completion of the analysis on bankruptcy, which, for us, is one of the larger categories of losses and the $0.03 also includes the impact for our consumer portfolios in Europe and Asia, and also our current assessment of forecasted charge-offs across the entire portfolio. So these adjustments are aligned with regulatory guidance and industry standards and we believe we have completed the methodology adjustments in our consumer franchise.

On discontinued operations at the bottom of the page, we had $109 million after-tax impact in the quarter. On WMC, we added $107 million to reserves in the quarter as pending claims increased from $5.4 billion to $6.2 billion. We ended the quarter with $740 million in reserves covering both the pending and the future claims and on Gray Zones, claims were up in the first quarter, above our model assumptions, so we booked $50 million of additional reserves and we ended the quarter with $561 million of reserves.

In total, the operating impact from the other items netted to a $0.04 benefit for the quarter and that will be offset through the balance of the year through restructuring, as I said. So let me move on to the businesses.

I will start with Power & Water. We were planning for a tough first half based on the volume comparisons for Wind & Thermal, but the market was even tougher than we expected. Orders of $5.2 billion were down 13%, Equipment orders of $2.6 billion were down 6%. That is driven by Wind. Our renewable orders of $1.1 billion were down 27%. Our thermal orders of $759 million were up 10% and our Distributed Power orders of $563 million were up 22%. So one of the highlights here in the quarter is that, excluding Wind, our Equipment orders in Power & Water were up 16%.

Service orders of $2.5 billion were down 19%. That is driven by tough comparisons, as well as order push-outs. In the quarter, we had about $100 million of orders on several gas turbine upgrade projects, mostly in the US, that slipped out of the quarter and overall, orders pricing for the business was flat in the first quarter.

Revenues of $4.8 billion were down 26%. Jeff showed you the unit comparisons for the first quarter, which drove the decline. Equipment revenue was down 42%, Service revenues were down 9% and segment profit of $719 million was down 39% driven by the lower volume.

We reduced our SG&A by 14%, but it wasn't enough given the unit declines and margins were down 3.2 points. As we got to the end of the quarter, we had challenges in the market. As I mentioned, we had about $100 million of gas turbine upgrade packages that slipped out of the quarter. We also had two distributed energy projects for a little over $100 million that were delayed and pushed into the second half. And in addition, we had expected a stronger European Power & Water Service market and that was down 22% on lower gas turbine utilization. So all these items would have been in revenues and of course would have had a significant impact on both margin dollars and rate.

On the right side is Oil & Gas. Orders of $4.8 billion were up 11%, Equipment orders of $2.9 billion were up 24% driven by strong Turbomachinery, strong Drilling and Surface orders for upstream production. Service orders of $1.9 billion were down 5% driven by lower Drilling and Surface orders related to lower activity in North America. Our backlog grew by $2.2 billion in the first quarter to $17 billion and orders pricing across the business was up 1.5%, our eighth quarter of order price increases.

Revenue of $3.4 billion was flat. Equipment revenue at $1.7 billion was down 4% as our growth in drilling and surface was more than offset by declines in Turbomachinery. And Service revenues of $1.7 billion were up 4%. That was driven by stronger global spare parts sales, partially offset by lower measurement and control short-cycle volume. M&C was lower as we saw customers delay investment decisions in the portfolio. And that impacted our expected revenues in both Equipment and Service by about $125 million.

Segment profit of $325 million was down 4% as the benefits of Service growth were partially offset by higher program spending and the one unusual item in the quarter here was we had $34 million of negative foreign exchange related to the weakening of the British pound. This is on an economic hedge over a long-term contract in the business and we will recover -- as we deliver the project, that hedge will go back to zero as we deliver the units over the next 12 to 18 months. Excluding the FX impact, segment profit would have been up about 6%.

Next is Aviation. The Aviation team had another strong quarter. Orders of $6.6 billion were up 22%, Equipment orders of $3.8 billion were up 47%. Commercial engine orders of $3 billion were up 90%, driven by $1.4 billion of LEAP orders and $875 million of GE90 orders.

Military Equipment orders of $300 million were down 42%. Service orders of $2.8 billion were down 2%. Commercial Service orders of $2.2 billion were up 8% and our first-quarter average daily spares order rate was $25.3 million per day, up 10%. Military spares were down 44% on tough prior-year comparisons. In overall business, order pricing was up 2.1%.

Revenue of $5.1 billion was up 4% driven by Equipment, which was up 8%. We shipped 596 commercial engines in the quarter. That was up 13 units, or 2%, and we shipped 279 military engines, which were up 44 units or 19%. Service revenues of $2.5 billion were flat as our commercial spare parts shipments were flat in the quarter.

Segment profit of $936 million was up 9% as the benefits of a positive value gap and lower SG&A costs more than offset higher R&D and the impact of 28 more GEnx engine shipments. And margin rates grew 80 basis points in the quarter.

On the right side is Healthcare. Orders of $4.3 billion were down 2%, Equipment orders of $2.3 billion were down 3%. For Equipment in the developed markets, it was down 5% and it is the same story we had last year. The US was flat, Europe was down 9%, a little worse and Japan was down 26%, 16% excluding FX, so soft. Developing markets were up 4% driven by China up 16%, Latin America up 4%, India down 7% and the Middle East down 19%.

By modality, MR was flat, CT was down 5%, ultrasound was up 7%, life sciences was flat and diagnostic guidance systems, which is x-ray plus interventional [PGS], was down 10%. Service orders of $2 billion were down 1%. Revenue of $4.3 billion was flat driven by the growth markets up 10%, offset by the developed markets down 4%. And segment profit of $595 million was up 2% as the benefits of restructuring more than offset the impact of lower pricing and foreign exchange and margin rates here were up 30 basis points.

Next is Transportation. The Transportation team delivered another solid quarter. Orders of $1.2 billion were down 26%, Equipment orders of $413 million were down 59% as locomotive orders were down 70%, driven somewhat by tough comparisons and also the net impact of the slowing coal market on the rail industry. Service orders of $746 million were up 31% driven by strong signaling and orders pricing was up 10 basis points for the business.

Revenues of $1.4 billion were up 12%. Our Equipment revenue was up 3% as the impact of lower locomotive shipments, 143 this year versus 159 last year, was more than offset with higher mining volumes somewhat driven by the acquisitions.

Service revenues were up 24% driven by higher long-term contract revenues in Mining services and segment profit of $267 million was up 15% driven by the positive value gap in Services growth and margins increased 50 basis points.

For Energy Management, orders of $2.2 billion were up 6% driven by Power Conversion. It was up 8%, Digital Energy was up 11%, revenues of $1.7 billion were up 2% driven again by Power Conversion up 11%, partially offset by lower revenues and Intelligent Platforms, which was down 15%. And segment profit of $15 million was down 29%. That is only $6 million, but that was driven by $15 million of higher expenses in Asia and Brazil for expanding capabilities to deliver the global $2.5 billion backlog that has grown over 25% in the past year or so. Segment margins were down 30 basis points driven by those investments and we expect this business to grow segment profit and margins through the rest of the year.

Home & Business Solutions had another positive quarter. Revenues of $1.9 billion were flat as we saw 3% growth in Appliances partially offset by a 5% decline in Lighting sales. And segment profit of $79 million was up 39% driven by the positive pricing and a little lower program spend and margins were up 1.1 points for the quarter.

And next is GE Capital. Mike Neal and the team delivered another solid result in Q1. Revenues of $11.5 billion were up 2%. If you exclude the impact of the 30 Rock gain, revenues were down 6% in line with lower assets. As I covered on the earlier page, the impact of the 30 Rock gain was offset by the restructuring and the reserve increases and I will cover those by business. And net income of $1.9 billion was up 9% as we more than offset the impact of lower earning assets with core growth and the AFE tax benefit.

We ended the quarter with $402 billion of ending net investment, which was down $32 billion from last year and $15 billion from year-end and our net interest margin was 5% and our Basel I Tier 1 common ratio improved 65 basis points to a little over 11%.

On the right side of the page, you can see our asset quality continues to improve. Delinquencies were flat or lower across the board. Our non-earning assets were down year-over-year and from year-end and our liquidity remains very strong, $68 billion of cash and we ended the quarter with less than $40 billion of commercial paper and that is the first time in 21 years we have been under $40 billion. So a substantial change in the funding profile of this business.

By business, the Commercial Lending and Leasing business ended Q1 with assets of $176 billion, down 7% from last year, driven primarily by noncore shrinkage, including $7 billion lower Penske, lower trailer leasing, lower Seaco assets. Net income of $398 million was down 40% driven by the Americas.

In the Americas, net income of $267 million was down 51% and that is driven by lower assets, as well as a $166 million after-tax impairment charge on one investment in the quarter. CLL volume was good in the quarter, up 8%. New business returns remain strong at about a 2% ROI and asset quality remains strong with flat delinquencies and less -- lower non-earnings.

Our Consumer business ended Q1 with assets of $137 billion, that was up 1%. Net income of $523 million was down 37% driven by the finalization of the portfolio segmentation that I covered earlier. US Retail Finance earned $382 million, which was down $259 million driven by the reserve increase. Excluding the reserves, the increase in the business was about flat in the quarter. Asset quality in this business continues to be very strong. Our 30-day delinquencies of 4.2% are at the lowest level we have seen in 10 years that we have been reporting on this basis. And US Retail volume was up 6% in the quarter versus last year and core Europe earned $145 million in the quarter.

For Real Estate, the team had another great quarter. Assets of $43 billion were down 28% from last year. They were down $3.5 billion from year-end. Net income of $690 million was up more than $630 million from last year, again, driven by the gain on 30 Rock. If you exclude the gain and the charge for the equity exits that I covered earlier, Real Estate earned $261 million and that was up over $200 million from last year, driven by higher tax benefits, lower losses and marks and higher gains.

In the quarter, not including 30 Rock, we sold 52 properties for $1.3 billion and $121 million of after-tax gains. And 30-day delinquencies at 2.16% are the lowest since the fourth quarter of 2008.

For the verticals, both GECAS and Energy Financial Services had strong quarters in the first quarter. GECAS earned $348 million of net income. That was up 9%. Earnings were driven by lower impairments and higher operating income and EFS net income of $83 million was up 17% driven by higher gains.

So overall, GE Capital delivered another strong result in the quarter and as you look forward to Q2, we will continue to have the loss of earnings from shrinking assets ahead of schedule and if you adjust for the one-time items that I covered, a normalized run rate for GE Capital at first quarter was about $1.8 to $1.85 billion. In Q2, we will also have the preferred dividend payment for the first half of 2013 and that is covered in our corporate line in our operating framework that Jeff is going to cover in a minute. So with that, let me turn it back to Jeff.

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

Great, Keith, thanks. Just, again, on the 2013 framework, we have no change to the overall operating framework for the year and by that, I mean, and specifically we expect our EPS to grow in line with previous commitments. The mix will change. We believe it is going to be hard for our Power & Water business earnings in '13 to equal '12, which we have talked about previously, primarily due to the incremental weakness that we are seeing in Power Gen in Europe in Services. As a result, our Industrial earnings will grow in the range of high single digits to double digits.

On the positive side, we expect capital earnings to be slightly better and our Corporate costs will be lower. Previously we were at $3.5 billion in Corporate costs and we are now targeting $3 billion. So that is an improvement of $500 million. We expect to hit our margin goals and we are on track to drive SG&A as a percentage of revenue to 15% by 2014 while organic growth could be at the lower end of the range. We have reflected the changes that we've seen in the market and we are going to be aggressive on costs as we go through the year. So on balance, the rest of the framework remains unchanged.

And finally, just in summary, some of our markets in the first quarter of '13 were more challenging than expected. Europe was tougher and some of the short-cycle markets were slower in March and we saw some push-outs. But despite that, we still plan to achieve our full-year EPS framework really based on Power & Water strengthening, a stronger backlog and deliveries, Capital strength and more cost-out and we plan to achieve our margin goals.

We ended the quarter with a very strong cash position of $90 billion consolidated and $22 billion at the parent and we plan to return $18 billion to investors in dividends and buyback while continuing to execute on bolt-on acquisitions. So in a challenging environment, we are committed to delivering for investors. So Trevor, let me turn it back to you and let's take some questions.

Trevor Schauenberg - ***General Electric Company - VP, Investor Communications***

Great, thanks, Jeff. Thank you, Keith. Derek, let's open up the phone lines for questions. I know we have another earnings call later today, so let's try to limit the questions to two apiece if we could today. Thank you.

QUESTION AND ANSWER

Operator

(Operator Instructions). Scott Davis, Barclays.

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

Hi, good morning, guys. Just on the margin targets, Jeff, and I don't want to make you repeat yourself for the third time today, but just to be clear, you are expecting to make the 70 bps for the year, including Power & Water, right? Not excluding Power & Water?

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

Yes, including Power & Water, Scott. I think we started the year with more than we needed at 130, 140 basis points. We spent a little bit of that in the first quarter, but we see Power & Water strengthening for the year. We think the margin rate for Power & Water will be kind of flat year-over-year and even with that, we expect margin rates to grow by 70 basis points. And we still have a hedge in that number. This is not an uncommon profile for us, Scott, in terms of the way that the year lines up and stuff like that. I don't know, Keith, do you want to just go through some of the dynamics of margins?

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

Well, sure. Let me just start with the profile and then we can go back to the pieces if you want, Jeff. Over the last seven years, on average -- over the last seven years, we always have margin growth from the first quarter to the total year. And in five of the last seven years, we had declines in the first quarter. So it is not an uncommon profile for us. We grow our margins from the first quarter anywhere between 50 and 280 basis points. On average, it is about 150 basis points. And in 2006 and 2010, we grew our margins approximately what we need for 2013. So it is not uncommon and we do have a lot of work to do. We can take you through the pieces either by the categories or by business, Scott. Whatever you would like.

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

So that's -- Scott, I think that is what everybody's -- that is what we are -- that's what we have got in all of our expectations and all of the execution models for the team.

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

Okay, fair enough. And as a follow-up, when you think about this backlog that you are building and book-to-bill is solid and such, but are you booking this backlog at a margin that is accretive to your existing margin structure that helps yield some confidence, one for the 70 bps, but also set us up for 2014 to see operating margins continuing to move forward?

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

So the margins in backlog are actually higher. We have had good pricing, Scott, for the past five quarters and our value gap, when you really hone in on our value gap, is wildly positive. We had a very strong value gap in the first quarter. That is only going to ring up for the year. So the value gap could be $800 million plus this year and so I think that all portends to good health in the backlog.

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

Okay. I will pass it on. Thank you, guys.

Operator

Steve Tusa, JPMorgan Chase.

Steve Tusa - ***JPMorgan Chase - Analyst***

Hey, good morning. I guess just my first question is on a little bit of, I guess, housekeeping on Oil & Gas. Definitely a weaker performance than I was expecting. I mean the margin down year-over-year, the orders there have been trending really well. You said Turbomachinery was down. Can you maybe give us a little bit more color around what drove the downside there?

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

Are you talking about top line or are you talking about orders?

Steve Tusa - ***JPMorgan Chase - Analyst***

Well, I guess top line and profit, I mean, I guess, both.

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

I will start overall with orders. Turbomachinery had very strong orders. They were up 70%. It's driven by strong upstream. Again, those are a little longer-cycle in terms of when they deliver. Drilling and Surface was up 48%. We had more BOPs and risers up. Pressure Control was up and Artificial Lift was up.

Subsea, we had one big order delayed in the quarter. We had about a little under $500 million associated with a large subsea project that has been pushed. We think that has pushed into the third quarter and on revenue, Turbomachinery revenues were down in the quarter. I think some of this is timing. We had large LNG projects in the quarter relative to last year's Gorgon and LNG projects, Curtis project in Australia.

Drilling and Surface was up 6% with Artificial Lift up 15%. Subsea was down 10%. Again, we had some tough timing relative to projects last year, but the backlog itself was up a couple billion dollars and pricing is up for the eighth quarter in a row. And it is a little longer-cycle. I think the only softness in M&C services was something we are watching. It was a little less than we expected, a little over $100 million as we just saw some push-outs and people making -- pushing out their investment decisions. But the core of Oil & Gas, Subsea, Drilling and Production, Turbomachinery has a very good outlook in terms of Equipment deliveries.

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

Hey, Steve, these guys were, on a profit basis, probably 30 or 40 weaker than I had really wanted them to do this quarter. I still think this business is going to be high single digit revenue, strong double-digit operating profit growth for the year. I think what Keith mentioned, we saw late in the quarter kind of a flow business in the control side that is something that we are not counting on necessarily getting better for the year, but was just kind of around the edges or else I think we would have done better in the quarter.

Steve Tusa - ***JPMorgan Chase - Analyst***

Got you. And then one just follow-up. Again, we are kind of sitting here in a tough macro. This happened in the fourth quarter. I guess when I look at these results and I listen to you guys explaining what is going on here, I mean it is just mind-boggling how many moving parts there are here, especially again in GE Capital. I mean at what point do we again maybe evaluate the size and complexity of the organization and make, I guess, a tougher longer-term decision on the structure of the company?

It just seems like a little bit of macro weakness kind of goes a long way and there is just so many moving parts to even be able to forecast and manage it. It has to be a challenge. So I am just curious as to how you guys view that in the boardroom.

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

Let me just go back and tell you what happened vis-a-vis my expectations, and I just want to maybe talk openly and just give you a thought. I think the Industrial side was about $200 million weaker than I would have planned for, what our internal plan was. We basically saw Europe -- Europe was running negative 5, negative 8 through February. By the end of the quarter, that was negative 15. That was a pretty big move.

I think you have seen it reflected in a lot of other companies' announcements. On the short cycle stuff, we saw pushes pretty consistent with what other people had seen. Now given the volatile time, the leadership team created multiple hedges in the plan. We had a $500 million -- we were always running corporate for less than what we needed. We had other hedges in the Company.

So by the time you put it all together, we are basically consistent with commitments, which is the way you would want us to run the place. So I just think you know look, I think we are explaining $200 million out of a big company, but we have been able to offset that through other hedges and operating disciplines we have got inside the Company, which is I think what you want us to do.

Steve Tusa - ***JPMorgan Chase - Analyst***

Okay. I mean I guess (multiple speakers)

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

(multiple speakers) the story.

Steve Tusa - ***JPMorgan Chase - Analyst***

I appreciate it. I just -- I think this year is obviously the -- again, we are kind of sitting here and it is back-end-loaded. So the second half is a very serious commitment that I know a lot of the investors I talk to are going to be watching very closely. So I appreciate the comments and good luck.

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

Steve, we are focused on it as well. It is the way all the comp plans are driven and the basic cycle of Power & Water is more or less consistent with the way we had talked about the year.

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

This is a Power & Water story. If you look, our revenues take out the NBCU gain. You look at -- Industrial sales were down $1.3 billion. Thermal & Wind are down $1.5 billion. This is what we are going to be wrestling through is that Power & Water volume profile that Jeff showed you.

Steve Tusa - ***JPMorgan Chase - Analyst***

Right. Okay, thanks for the detail. I appreciate it.

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

Okay, Steve, thanks.

Operator

Nigel Coe, Morgan Stanley.

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

Yes, thanks, good morning. So just, Jeff, you commented on the 2 to 6, more towards the lower end of that range for the full year and it seems that the weakness in Oil & Gas and the weakness in Power & Water are more of a timing issue. So we have seen some push-outs, but the profile seems to be very much in line with what you had expected. So I am just wondering what else is driving this down towards the lower end of that range for the full year. I mean, first of all, I think it is prudent to do that because you had a negative 5 in the first quarter, but I am just wondering, maybe in some of the short-cycle businesses, where are we now versus where we were in December?

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

Nigel, again, I think the way we look at just in total how we run the company is we don't necessarily assume things are going to get better, right? So we saw, I would say, not in a catastrophic, but we saw Europe marginally get worse during the quarter. We are now not counting on that getting better, right? We saw a couple of short-cycle businesses get pushed. We have gone through a pretty granular analysis here of what we think comes back and what we shouldn't count on. And I think when you do that calculus, we just think the smartest thing to do is to say to investors, look, we think this could be at the low end of the range because we are not counting on stuff getting better during the year. If it does, great, but we are not counting on it and we are going to take out cost accordingly so that we kind of hedge our bets. So that is really the answer, Nigel, is we just don't count on everything coming back that got pushed and we don't count on things that we viewed getting incrementally worse getting better.

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

Okay, but when we calibrate our models, should we be putting a bit more pressure on Healthcare and perhaps Home & Business Solutions or was this fairly evenly spread?

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

I think, again, guys, I guess if I were -- and Keith, jump in with your views as well, I think, look, Power & Water, we would like to surprise you guys on the upside as you go through the year, right? So think about the Power & Water just profile in the year. And then other than that, I would say Healthcare was a smidge weaker than we would have expected, but we still think Oil & Gas and Home & Business and the other businesses are going to be pretty solid. I don't know, Keith --.

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

Sure. I think you said it exactly right. When you look at what happened in the quarter, we are trying to take that into account and decide what does it mean for the year and not counting on Europe certainly getting a lot better. That is going to take you probably to the low end of the organic range.

Power & Water we originally thought would be close to flat. I think today, we are saying Power & Water probably for the year will be down a bit and that is based on the profile that we saw in the quarter and our expectation of what that means for the year. You do see it getting better in the second half and you do see the recovery, but, in total, it is probably a little weaker than we wanted for the total year.

The other businesses, we will see. I think we have got a great backlog in Oil & Gas. We have got to execute on the long-cycle projects. What will we see in the short cycle later, we will have to see. I think Healthcare could be a little -- the US market was so little -- we are talking about plus or minus 1% here, not a lot of change versus our expectations in the Healthcare model I would say.

So I think it is prudent to plan the way we are and as Jeff said, we are going to have to continue to grind away at taking out the cost. We have got more restructuring that will happen through the year as we said. We are committed to getting the $1 billion of cost out and it could be higher based on what we have to do to rightsize this place for this market.

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

That makes sense. And a quick one on the internal plan, the 1.3 points of internal target for margin. Does that include the additional benefit from the restructuring from the NBCU gain because the 1.3 points is higher than I expected and some of the --?

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

Yes, it does.

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

Yes, it does, Nigel. That is really one of the drivers of the difference.

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

Okay, thanks a lot, guys.

Operator

Julian Mitchell, Credit Suisse.

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

Thanks a lot. Yes, so if I think about the EBIT bridge, you called out kind of four main items behind that this quarter. Last quarter, there was a fifth, which was also Service. If I think about Service and R&D, I mean R&D you had said back in January that should be sort of flattish as a margin driver. Do you still believe that? I mean you highlight the fact that R&D was up 7% in Q1. Is there something extra on R&D pressure maybe around the LEAP-X or something that we need to think about?

And secondly on Services, you had a plus plus there for Services in the Q4 earnings slides. Services now you have had four consecutive quarters of flat to down orders. The commentary around European Services is obviously very bad and I just wondered if your margin guidance embeds a recovery or how much of a recovery in Services over the balance of this year?

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

Yes, I think the Services -- let me go to that point first. The Services, we do expect a Services improvement as we go through the year. We have some specific items that we are working on. For example, in Power & Water, as Jeff talked about, we have got these advanced gas path upgrades. We have got over 50 of them that we are working on for the year. We sold two in the quarter. We have got a number of those in the backlog and a number that still have to be closed.

So I think there are some specific items that we do expect. We have some comparisons in Europe that could be a little bit better and the service margin rate was up 30 basis points in the first quarter. So I think, for us, when you look at the four factors on the margin page, mix, which does include Equipment versus Services, it was a positive 10 basis points in the quarter. We are estimating it will be flat for the year. We are counting on less Wind, we are counting on more GEnx engines, as you saw, but that was kind of in the run rate in the first quarter and we are counting on some Services growth as we expect Equipment to grow as we go into the second half. So we do have some Services growth in the plan.

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

R&D, Julian, will be flat. I don't expect that to be a headwind. I think we had Aviation and Oil & Gas in Q1 that were at a higher run rate, but in total that is going to be flat for the year.

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

It'll be flat as a percent of sales.

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

As a percent of sales, yes. (multiple speakers). What Keith said on margin rates, again, I think we have got a good window on margin accretion in the Service business.

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

Got it. Thanks. And then just secondly on the top line, just on the -- if you think about sequestration, I guess and how are you thinking about that playing into your guidance for the revenue outlook in Military aftermarket in Aviation and also for US Healthcare? Did you see much of an effect or it was kind of just noise that caused some push-outs and did that cause you -- was that a factor behind the low end of the revenue growth guidance comment?

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

Let me start with Aviation. We have about 90% of our Equipment on firm order for the year. And so, as you saw in the quarter, the Equipment was actually up in the quarter, Equipment deliveries. We believe that that is going to remain very strong. We are in certain programs that are priorities for the Defense Department and things that are on firm commitment aren't being cut right now.

We did see a decline in Service orders. Some of that was versus comparisons we had last year and we will have to see how that plays out for the year. It was down about 14% in the quarter on revenue. I think that is about what the team expects for run rates on Services, but, in the back half of the year, we will have to see how the sequestration in total plays out.

I think there are a couple of offsets that you have got to think about. One is our international military engine business is very strong. We had orders for about a little under 200 F110s for the Saudi Air Force. That extends the production line of the F110s product through 2016. We had India order for the light combat aircraft on the 414 and Switzerland on the 414 and we have got some significant orders in line for helicopter engines for both the Army and the Navy.

So I think we are concerned about it on the short-cycle side. In Services, I think it could put some pressure in the back half of the year. In terms of Healthcare, the US market was just slow. I don't find it to be -- is there one driver? I think it is just the fact that there is a lot of uncertainty around healthcare. Providers are consolidating, they are worried about costs and making profit and then they are just being cautious on purchasing.

So there, we have got to drive our technology and we have to continue to drive the productivity and that is what that healthcare team is going to do. I think their year is going to depend on continuing to do well in the emerging markets, as well as taking the costs out. They had a good cost-out performance in the quarter and they have got to continue to do that through the rest of the year.

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

Great. Thanks.

Operator

Jeff Sprague, Vertical Research.

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

Thank you, good morning. I guess first question is maybe on capital allocation, dovetails a little bit with what Steve asked. There was an 8-K that came out about a week after the proxy outlining that comp is going to be tied to 2015 Industrial profits as a percent of earnings. I'm not sure why that wasn't in the proxy, but the real question is can you share that target with us? It seems very apropos to kind of the evaluation construct in the stock.

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

Well, Jeff, again, I think the way to think about that is it is going to be consistent with what we talk about externally, vis-a-vis kind of vision for the Company over the next three years. So in many ways, you have got a perspective for that, I would say, already.

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

And it is a balanced set of measurements. We have got a cumulative EPS, we have got a cumulative cash. We have got a percent of earnings that are coming out of the Industrial business, which we expect to increase through the growth playbook period here, through that three-year period, as well as a return on total capital, which will also incorporate what are the returns from both our Industrial side and our Financial Services side, Jeff.

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

I think, Jeff, if you go back to the December outlook meeting, you will see the guidepost. And I think what we tried to do is triangulate between total EPS, wanting to keep that on a certain trajectory, managing the mix of Industrial, Financial, generating cash and making sure that a return on total capital. So I would say the four metrics we have are pretty interwoven, vis-a-vis how we think about value creation and how our investors want us to run the place.

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

Okay, great.

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

But I would go to the outlook meeting, Jeff and just -- I think that will give you the guidepost.

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

That is what I wanted to clarify. Thank you. And then just thinking about Industrial, so just kind of trying to put these pieces together, it looks like you are going to pick up $0.04 in Corporate on the lower guide. It looks like capital tax rate is $0.04. It is unclear if the Industrial tax rate is a little bit lower, but it feels like you are taking a dime out of Industrial. Is that the right way to think about it and could you share why Corporate actually is going to be lower than you thought?

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

I think, Jeff, what we are basically saying is, when you think about the segments, I wouldn't change any of those other than necessarily Power & Water. And I think we basically guided Power & Water flat and we are saying that could be down slightly. So I don't think -- I don't think we would agree with your math.

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

Yes, that's very high. The capital tax rate is in the context of the total capital earnings for the year. There is going to be a set of asset optimization transactions that we are looking at. Some of them will cause potentially us to have higher tax benefits and it may also go with lower earnings. So I don't think we are trying to do a direct offset for capital. And for Corporate, basically what we have been able to do -- first of all, we had some better performance in the first quarter from NBC. That won't continue obviously, but that is included in the negative 172 that we have sitting here.

And then on a run rate basis, we think we are going to be somewhere around $750, $775 million of base Corporate expenses. We are getting some benefits from our simplification efforts. We have lower spending across the Corporate functions. They are going to be down 10% for the year and that benefit will help us on our overall cost goals of getting $1 billion plus out for the year, Jeff.

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

Okay, great. That is great detail. Thank you very much.

Operator

Shannon O'Callaghan, Nomura.

Shannon O'Callaghan - ***Nomura Securities - Analyst***

Good morning, guys. Hey, can you give us the gas turbine and wind turbine unit orders for the quarter?

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

Sure. Gas turbines, we had eight units in the quarter. We had four steam turbines versus one. On the wind turbines -- hang on one second; I know I have it. It was down, but it was still -- on renewables, we had 584 wind turbines versus 696 last year. So it is down about 30%.

Shannon O'Callaghan - ***Nomura Securities - Analyst***

Okay. And so I mean just thinking about this, right, you shipped like 12 in gas turbines; you got orders for eight. What is going on by geography in that number? Those are -- I don't know when the last time those were that low, but that is a pretty low number. What are you seeing geographically? And do you have any visibility into things getting better?

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

Yes, I think they are very spread obviously in the quarter. We got a couple in Latin America, a couple in the Middle East, one in Russia, one in ASEAN, one in the US. So they are spread out. I think as you look forward, we are expecting to be somewhere between around 120, 130 gas turbines for the year in orders. So you are going to see that pick up through the year. We do see some heavy activity in the Middle East. We have got some in EMEA and we have got some in Latin America and we have got some in Africa. So it is pretty spread. I think there is some core activity in the Middle East, which would be the foundation of that activity for the year.

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

The Macquarie report, we were up 3 points of share in gas turbine in 2012. So our position is still strong and I think what Keith said, it is still our expectation to have 120-ish of orders in the year.

Shannon O'Callaghan - ***Nomura Securities - Analyst***

Okay. And then just a follow-up on kind of the mix question. So in terms of getting to the 65% Industrial earnings with the mix adjustments to this year that you made today, obviously, '13 is not going to be a year that really gets you far in that direction of the target. I mean with Power & Water kind of tracking below what you thought, I mean does this reassess your route to the target in terms of organic methods versus portfolio moves?

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

Again, not -- I go back -- Shannon, look, I would say the quarter was -- the macro was a little bit tougher than we had expected coming into it, but we still expect to have a really good year industrially inside the Company. And so I still think there is a good chance that our percentage of earnings in Industrial grows this year, even with the adjustments that we made today.

And look, we have always been very open on portfolio moves, vis-a-vis what we are trying to do at GE Capital around really focusing on the green assets and being very open, kind of in an investor-friendly way to look at the portfolio. So we will continue to work that, but we will do it in a smart way. We will do it in an investor-friendly way.

Again, I think if you go back to the question Jeff asked earlier, total EPS is a metric, how we allocate capital is a metric, Industrial percentage of earnings is a metric, total CFOA is a metric. So we are going to try drive value around all four of those metrics as we look at going forward. But we expect to have a good year industrially this year.

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

Sure, and you look at capital, we ended the quarter with $402 billion of ENI. It is down $32 billion from last year. There is not a lot of just huge transactions in there. I mean we are continuing to run off -- we have got over $60 billion of non-core assets. We continue to run those off. The Real Estate gain enabled us to add to the current Real Estate plan, another $2 billion of equity assets that we expect to exit this year and so you are going to continue to see asset declines based on the red asset runoffs.

If we can get a little better GDP and a little higher growth in the CLL business, that would be great, but, right now, you would say that that market continues to be relatively flat for asset growth and we need a little better economy to kind of see that pick up. So right now, I would expect that you're going to continue to see any declines in GE Capital.

Shannon O'Callaghan - ***Nomura Securities - Analyst***

Okay, great. Thanks, guys.

Operator

John Inch, Deutsche Bank.

John Inch - ***Deutsche Bank - Analyst***

Thank you. Good morning, everyone. Just wanted to pick up on the Capital issue. What, Jeff and Keith, do you think is the dilution associated with Capital downsizing say in 2013 year-over-year? And obviously that includes some of the actions that you described based on the gains that you were opportunistically able to leverage this quarter.

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

Well, just on actual volume down, if you took $35 billion at a 1.5% return, that would be a total year estimate of sort of the lost margin, lost earnings that they have. Now they offset some of that with cost. Our new business volume has been at better returns, but that will size it for you roughly, if that is what you're asking, John.

John Inch - ***Deutsche Bank - Analyst***

Yes, no, it is. So from an ENI context, Keith, I mean ENI is going to drop sub 400 I am assuming relatively quickly. Where do you think it ends, like what is the trajectory ultimately? Is it you just subtract the $60 billion and you have some optionality around some of the other possible investments like in offshore banks or some of the other stuff or is there some other offset to that?

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

Well, the team is not trying to just have $60 billion of non-core assets go out and not grow the core business. I mean we are actually trying to remix, as you know. So so far though, if you look at the last couple years, our runoff of non-core has exceeded our remixing. So it depends upon what that remixing looks like. Right now, we continue to be active in the market. Our organic volume is mid-low single digits and we have a lot of refinancing that has occurred.

We would like to acquire some portfolios. If we could find the price to match our objectives on returns, we would do that. So we have capacity obviously. We have been shrinking and building up the equity. But so far, if you just look at what has happened so far, the runoff of non-core has exceeded the remix into the green assets and we will see what happens.

As we have said in the framework discussions, big material portfolio moves are not part of the base plan, but we are going to look at those opportunistically. We do have some value-maximizing franchises in the business, obviously and if we had the opportunity to move some of those based on the market or buyers or a better appetite, we would definitely evaluate those. But right now, the base plan is to continue to remix. If you look at the last couple years, the runoff has exceeded the core growth. We will see how that plays out and we do have opportunity on value-maximizing.

John Inch - ***Deutsche Bank - Analyst***

Yes, no, that's helpful. Thanks. As a follow-up, could you guys spend just a second on China? It actually seemed to be one of the brighter spots in your quarter. And just in terms of -- China is obviously -- kind of was in the recession last year. What are you seeing today in your businesses there and the trajectory? And maybe you could put it in the context of price and orders and just how you are feeling about that market and its future contribution?

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

So what I would say, John, is, look, we had revenue up double digits last year. We had revenue up double digits in the quarter and we had orders that were up 60% plus.

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

Almost 70%.

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

Almost 70%. So I always try to answer this is that we are a composite of the businesses we are in and not necessarily a reflection of everything. So if you think about our three biggest businesses, which are Aviation, Healthcare and Power & Water, all three of them are in a pretty good cycle right now. Healthcare continues to grow strong double digits --.

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

Healthcare was up 14%.

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

Aviation, very --.

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

Aviation was up -- favorable. It had $900 million of orders. Oil & Gas was a good quarter, up 76%. Energy and Power was down about 30%, but overall --.

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

But I mean power has got the gas tailwind over time with more gas turbine demand, vis-a-vis coal and other fuels. But I think over the long term it is going to portend well. So we think China will continue to be a good story.

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

So great orders quarter in China.

John Inch - ***Deutsche Bank - Analyst***

Yes, I guess the question is, I mean Europe, not just for GE, but others, downside surprise this quarter. It sounds like China was a little bit of an upside surprise. Is this -- do you think this trend is sustainable or is there some sort of a -- some kind of a first-of-year blip or aberration because of the timing of who knows what, just something perhaps that --?

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

John, I think our growth region story is still pretty strong. Orders up 17% overall. I don't think we see this as a -- we see this as more of a tailwind than a headwind for the year.

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

I think you have got to levelize the 70% order rate. I mean we are planning on double-digit order rates in China and the start to the year gives us confidence that we will have that for the year.

John Inch - ***Deutsche Bank - Analyst***

Got it. Thanks, guys.

Operator

Deane Dray, Citi Research.

Deane Dray - ***Citigroup - Analyst***

Thank you, good morning, everybody. Hey, I was hoping to get some color on the updated restructuring plans for the balance of the year. Your initial plan was the bulk was coming in in the second and third quarter. I see some has slipped into the fourth quarter, but just comment on the timing, what are the areas you are able to talk about on the balance of these restructurings, the payback and just we do recognize that these will be excluded from operating results because you have had part of that gain slip through or fall through on the first quarter.

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

That is right. We have tried to give you the profile. In the second, third and fourth quarter, it is really a function of getting all of the work complete to be able to meet the criteria required to do the accounting. We have to have the plan finalized, we have to take all the actions, including getting whatever approvals might be required of Works Councils or negotiating with unions that we have contractually in place and some of those things are just going to fold off -- fold into the second, third, fourth quarter. And some of that money that is in the second, third and fourth quarter is related to projects we have already approved. It is just the timing of getting those expenses accrued on the restructuring will fall into those later quarters.

So the majority of it is going to be headcount and plant closing and site closings. We continue to downsize our footprint and as part of simplification, people are reducing the number of profit and loss centers. Across the Company, we are reducing the number of business sites. We are consolidating into common leased facilities. We are closing some of our older capacity plants. You have seen some of that in the US and consolidating into different facilities that are more productive.

So we have just got a tremendous amount of activity. It is spread across the world. It is probably about half in the US and the rest spread between Europe and Asia, a little bit in Latin America. And substantially reductions in compensation and benefits and then facilities.

Deane Dray - ***Citigroup - Analyst***

Great. I know we are past the (multiple speakers).

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

The payback is about 18 months; you asked about the payback.

Deane Dray - ***Citigroup - Analyst***

Yes, okay. Thank you.

Operator

Steve Winoker, Sanford Bernstein.

Steve Winoker - ***Sanford Bernstein - Analyst***

Good morning. Just to switch gears to capital for a second, any reason that you would have to believe that the context is different in terms of thinking about the dividend announcement that was made roughly in May last year as you look out now? Any reason to believe that things have shifted in a way such that we should be thinking about that differently in 2013 versus what happened in 2012?

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

Well, I don't believe so. As you know, we are not one of the CCAR entities. We do go through our own process that mirrors a lot of that activity one-on-one with our regulator. We don't comment on any of those discussions. We have done obviously stress tests and capital plans and we will work constructively with them on that. And our current expectation is that the time would be similar to last year and if that changes, we will let you know, but that is our current expectation, Steve.

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

The ENI is lower and the ratios are better, right? So GE Capital is in very strong position right now.

Steve Winoker - ***Sanford Bernstein - Analyst***

Okay, great. And just a minor question, but Safran had talked about $200 million of additional spend on the leadbacks and Silvercrests, so it is obviously across two engines there, but that -- I am just trying to equate sort of your responsibility on the LEAP-X side. Have we seen whatever tickup there might be already because they said that was additional spending they were going to be doing going forward. Have we seen that with you guys already?

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

Well, you saw the R&D in Aviation is up. We do expect and have that in the run rate. The trade-off that we have is the GEnx spending on the PIP programs comes down, but Aviation's spending a lot of money. In total for R&D, we expect that to be flat as a percent of revenue for the business. Aviation will probably be a little higher than the other businesses and it is in line with all the new programs that they have, as you said, the LEAP, the Passport, the finish of the PIP programs on the GEnX.

Steve Winoker - ***Sanford Bernstein - Analyst***

Okay, great. That's clear. Thanks a lot.

Operator

Andrew Obin, Bank of America-Merrill Lynch.

Andrew Obin - ***Bank of America-Merrill Lynch - Analyst***

Thank you very much. Just a question on restructuring. So I think you mentioned that there is an 18-month payback on restructuring.

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

That's right.

Andrew Obin - ***Bank of America-Merrill Lynch - Analyst***

So can you just talk about what was the margin cushion before NBCU divesture (inaudible) when you upped the restructuring targets?

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

It was more than 70 basis points. The restructuring obviously has added to it. I don't have that broken out specifically. It did give us a --.

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

A couple hundred million bucks, maybe something like that.

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

Sure.

Andrew Obin - ***Bank of America-Merrill Lynch - Analyst***

Okay. But from that perspective that should flow into 2014 as well, right?

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

Oh, yes. Look, like I said, we are going to -- by '14, SG&A as a percentage of revenue is going to be 15%. We are on that path and we are going to stay on that path. (multiple speakers). Go ahead.

Andrew Obin - ***Bank of America-Merrill Lynch - Analyst***

And just a little bit more granularity as to which businesses you are going to sort of do a restructuring in throughout the year. How that will flow business by business through the year if you can do that?

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

I don't have it split by business. I think it would be pretty similar to the profile that I gave you. I gave you the dollars by business for the first quarter's restructuring. I don't see any reason why we wouldn't have a little higher proportion in the Power & Water, Energy Management and Healthcare.

Andrew Obin - ***Bank of America-Merrill Lynch - Analyst***

Terrific. Thank you very much.

Keith Sherin - ***General Electric Company - Vice Chairman & CFO***

Those would be the three priorities.

Trevor Schauenberg - ***General Electric Company - VP, Investor Communications***

Great. We have hit all the questions. So just to close out today, the replay of today's webcast will be available this afternoon on our website. We will be distributing our quarterly supplemental data for GE Capital soon.

I have a couple announcements regarding some upcoming investor events and dates. Next Wednesday, April 24, is our 2013 annual shareholders meeting in New Orleans. We hope to see you there. On May 22, Jeff will present at the 2013 Electrical Products Group, EPG conference. On June 19, David Joyce and Norman Liu will host an analyst meeting in conjunction with the Paris Air Show. And then, finally, our second-quarter 2013 earnings webcast will be on Friday, July 19. So thank you, everyone. As always, we will be available today to take your questions.

Operator

Ladies and gentlemen, that concludes today's conference. We thank you for your participation. You may now disconnect. Have a great day.