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GE - Q3 2017 General Electric Co Earnings Call

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OVERVIEW:

Co. reported 3Q17 revenues of $33.5b, operating EPS of $0.26 and continuing EPS of $0.22.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the General Electric third-quarter 2017 earnings conference call. (Operator Instructions). My name is Jason 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, everyone, and welcome to GE's third-quarter 2017 earnings call. With us today are Chairman and CEO, John Flannery; GE Vice Chairman and CFO, Jeff Bornstein; and incoming CFO, Jamie Miller.

Before we start, I would like to remind you that our earnings release, presentation, and supplemental have been available since earlier today on our website at www.ge.com/investor.

Please note that some of the statements we are making today 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.

And now, I'll turn the call over to John Flannery.

John Flannery - *General Electric Company - Chairman and CEO*

Okay, great. Thanks, Matt. Good morning. Before we get into the results of the quarter, I wanted to give you an update on the review of the Company we've been doing over the last 90 days. While the Company has many areas of strength, it's also clear from our current results that we need to make some major changes with urgency and a depth of purpose. Our results are unacceptable, to say the least.

The first thing I would say is the review of the Company has been, and continues to be, exhaustive. The team and I have performed deep dives on all aspects of the Company, and no stone has been left unturned. We are evaluating our businesses, processes, corporate, our culture, how decisions are made, how we think about goals and accountability, how we incentivize people, how we prioritize investments in the segments; and at the overall Company level, including global research, digital, and additive. We have also reviewed our operating processes, our team, capital allocation, and how we communicate to investors. Everything is on the table, and there have been no sacred cows.

I will give a more detailed look at our Investor Meeting in November, but at a higher level, here are the key themes and actions you can expect in November.

First, we are driving sweeping change and moving with speed and purpose. I'm focusing heavily on the culture of the Company. Our culture needs to be driven by mutual candor and intense execution, and the accountability that must come with that. We have announced changes to the team at the highest levels of the Company. We've made a series of senior level changes in our power business. We announced last week that Ed Garden from Trian is joining the Board. Things will not stay the same at GE.

In addition to changes in our culture and our team, I will also share more with you in November on our capital allocation methods, changes we are making to analytics and metrics, and process improvements. In particular, these changes are focused on improving the cash generation of the Company. We have to manage the Company for cash and profitability in addition to growth. We need to hold teams accountable for the results.

I'm also working with our Board on comprehensive changes to our compensation plans to better align the team with investors. Speaking of our team, I have found that to be an area of a broad strength overall. We have dedicated teams across the globe that customers can rely on to go the extra mile.

Second: fundamentally, we have a strong set of businesses in leadership positions. We have some major challenges in our power unit, but performance in most of the other segments is strong. That said, we have a substantial opportunity to improve cash and margins across the entire Company. This is where I'm focusing my time and effort.

As a start, we're already implementing a plan to drive substantially in excess of $2 billion of cost out in 2018 compared to our previous target of $1 billion. We will have a much smaller, more focused corporate; and we're rightsizing our business to face market realities. And we'll be mindful of the need to balance aggressive focus on costs with critical investments in long-term growth initiatives.

We will be much more disciplined at all levels of the Company on capital allocation: our NPI spend, P&E investments, working capital. I will also hold the team accountable for securing the returns that we can and we should achieve from our restructuring, which I view as important investments in the future of our businesses. Much like I experienced in my healthcare days, I see this largely as a self-help story. We can, and we will, and we must improve the cash flow and margins of the Company.

Third, I'm conscious of the fact that size and scale drive complexity. The Company has many strong franchises, but a number of other businesses which drain investment and management resources without the prospect for a substantial reward. We will have a simpler, more focused portfolio. To date, we have identified $20 billion plus of assets that we will exit in the next one to two years.

We're also reviewing potential further optionality with other assets in our portfolio. Each GE business is being measured against a set of rigorous strategic and financial objectives; and the belief that we can add value to the businesses over time will serve as a central tenet in shaping GE's future portfolio.

Doing these three things well -- redefining our culture, a back-to-basics approach to running our businesses better, and reducing our complexity -- these things will return us to our ultimate purpose: running a GE platform that is built for value creation for our owners. I will run the Company for cash generation and performance better than peers.

We have leadership positions in global infrastructure businesses where our scale and deep technology domain represent significant and hard-earned competitive advantages. We'll continue to invest in digital and additive to drive upside.

GE has always been a company that combined innovation and technology with process rigor and global reach to create powerful outcomes for customers and improve the lives of literally billions of people around the world. The questions of who we are and what our relevance to the world is -- those are not the issues facing the Company today. The questions of how we execute and what results we deliver -- those are the issues we are addressing with the utmost sense of urgency.

Lastly, I know there have been questions about capital allocation and our commitment to the dividend. We manage the Company for total shareholder return, balancing growth and the dividend payout. The dividend is a priority in our capital allocation framework, and we understand its importance to our investor base.

We are in the process of finalizing our 2018 framework, and we will share that with you in November. We will be reviewing our outlook for 2017 and 2018 in terms of sources of cash and CFOA generation. We will do that with an appropriate balance of growth investment and dividend payout, and we will share our overall capital allocation framework with you in the November meeting.

As I said at the outset, the results I'm about to share with you are completely unacceptable. As I look forward, however, from where we are, I see a journey with significant upside driven by running our businesses better, leveraging the strength of the portfolio, and unlocking value where it makes sense. I am highly confident in our ability to execute on this.

The bedrock of my confidence comes from the people of General Electric, many of whom are listening to this call. They are smart, passionate, tough, experienced; and I can assure you they are determined and united to restore our performance and operate with integrity, with accountability, and with an unwavering sense of purpose. I am humbled to be their leader and excited about taking this journey together with them.

In our 125-year history, GE has been known for combining technology and innovation with execution intensity to produce outstanding results for customers and for our owners. We will regain that trajectory, and I look forward to sharing more with you in November when we get together in New York City.

And now let me turn to our Q3 results. In terms of the third quarter, it goes without saying that this quarter was a very challenging one for us. At the highest level, we had strong performance in most segments that was more than offset by results in our power and oil and gas businesses. This was especially true in our earnings and CFOA. EPS in the quarter was $0.29, down 9%. We had $0.21 of restructuring and other one-time items offset by a $0.21 gain from the sale of our water business. Organic revenue was down 1%, and op profit was down 7%. In both cases, this reflects good performance in most segments offset by weakness in our power business.

Orders in the quarter of $29.8 billion were up 11% and flat organically. I'll walk you through the orders by business on the next page. Industrial segment revenue was $30 billion. This was up 10% reported and down 1% organically. Power was down 6% organically, and oil and gas was down 7%. Excluding power and oil and gas, we saw 2% organic growth across the rest of our businesses. Industrial op profit was down 7% in the quarter, with power down 51%, and oil and gas down 35%. Aviation and healthcare had very strong quarters, up 12% and 14%, respectively.

Industrial margins of 11.8% were down 220 basis points. Power and oil and gas were down substantially. All other businesses expanded margins. We are delivering on structural costs. We took out $500 million in the quarter, bringing the total year to date to $1.2 billion. We have already exceeded our total year goal of $1 billion, which will position us well for 2018. Industrial CFOA was $1.7 billion in the quarter, and $2.1 billion adjusted for dividends received from Baker. Jeff will walk you through these dynamics.

Next, on to top-line performance. Let me start with orders, on the left. Orders of $29.8 billion were up 11% but flat organically after adjusting for Baker Hughes. Organically, equipment orders were down 10%, and service orders were strong, up 10%. The decline in equipment was driven by power, down 32% due to lower TM orders, lower extended scope, and steam. Renewables was down 6% due to the non-repeat of a large offshore deal last year, Merkur. However, we saw good growth in the onshore business, up 36% on very strong international growth. Oil and gas equipment orders were up 3X, up 58% organically, and transportation was up over 100% off of a low base. Aviation and healthcare continued to have solid orders, up 8%.

We saw broad strength across our services portfolios. Power services orders were about flat, and all other businesses were up. Aviation was particularly strong, up 13%, with the spare rate up 21%. Renewables service orders were up 22% on US repowering demand, and transportation services was up 44% on strong mining volume and transactional services.

I'm particularly pleased with the orders performance in digital this quarter. They achieved $1.4 billion of orders, up 50%, with strength in power, up 23%; transportation, up 45%; oil and gas, up 5X. Year to date, digital orders are up 32%. We are getting real traction here with customers as we continue to focus our efforts on our core markets.

Revenue was down 1% organic, including the effects of acquisitions and dispositions and FX. Year to date, organic revenue is up 2%. Equipment revenue was down 9% organic, driven by power, down 6%; aviation, down 7% on lower engine shipments; and transportation, down 44% on significantly lower locos. Strength in services revenue was led by aviation, renewables repower activity, and transportation.

Okay. Next on to execution. With respect to cost out, I'm very pleased with our progress here. We are ahead of plan for the year and have a strong pipeline of ideas, many of which are being implemented as we speak. Structural cost of $5.7 billion in the quarter was down $500 million. Year to date, structural cost is down $1.2 billion, with $900 million of that in the segments and $300 million in corporate. And year to date in power, cost is down $590 million and aviation is down $200 million. As I mentioned, our current rollup for 2018 is an additional $2 billion dollars plus of cost out, with more to come.

Industrial margins were 11.8% in the quarter, down 220 basis points. Excluding oil and gas, margins are down 90 basis points. Our cost out actions are beginning to register. Ex- power and water and oil and gas, all other businesses were up 250 basis points. Oil and gas and power margins were down about 700 basis points each.

So the big picture on the quarter here: strength in many segments in terms of orders, operating profit, and margin rate; but these strong performances were more than offset by power and oil and gas.

And now let me turn things to Jeff Bornstein and Jamie Miller. But before they start, I just want to note that Jeff has been a big leader in the Company and an important partner to me as I have transitioned into the CEO role. Jamie is hitting the ground running, and I know our finance function will be in good hands under her leadership.

So with that, over to you, Jeff and Jamie.

Jeff Bornstein - *General Electric Company - Vice Chairman and Outgoing CFO*

Thanks, John. Before I go through the results for the quarter, I want to share with you why we are transitioning my role as CFO to Jamie. Although we are proud of many of the important changes made over the last few years -- including reducing corporate structure, adding additive, restructuring GE Capital, exiting appliances, integrating Alstom and establishing with Baker Hughes GE -- our operating performance has not been what it should be.

Most recently, power has emerged as a real challenge in terms of volume, profitability, and cash flow. I've talked a lot about accountability inside the Company, and that sense of accountability has to start with me. We are not living up to our own standards or those of investors, and the buck stops with me.

John and I made this decision together. And although leaving the incredibly hard-working and dedicated finance team and the Company is the hardest thing I've ever done in my 28 years with GE, I know it's the right decision for the Company, myself, and my family. John is driving a lot of change in the Company and its culture, and it's the right kind of change. I'm excited for John to share more with you in November on the progress and thinking we've undertaken. Jamie will be great in the role, and will bring a unique perspective to the job and to the Company.

First I'll update on cash. You'll see that the page is different than how we have historically presented. We also provided another metric this quarter, given the close of BHGE deal in July, which more accurately reflects the cash available for GE to use.

Let me take a minute to walk you through the left side of the page. Our reported CFOA was $500 million in the quarter. That represents GE cash flow, including 100% of Baker Hughes' CFOA. Next on GE Capital [do see] we did not receive a dividend in the quarter. As you know, we're in the process of performing an actuarial analysis of claims reserves in our insurance business. Until that review has been completed, we have deferred the decision to pay GE Capital dividends to GE.

Our industrial CFOA was $1.7 billion in the quarter, adjusted for $1.3 billion of US pension plan funding and deal taxes. This is down $1.2 billion from prior year. With BHGE, on a dividend basis and excluding oil and gas CFOA, our industrial CFOA was $2.1 billion.

On the right side, we provided some color on the industrial CFOA dynamics, including oil and gas, for the quarter. Versus our expectations, our CFOA in the quarter was negatively impacted by two things: lower-than-expected power earnings, and underperformance in working capital. Working capital was a usage in the quarter of $1.3 billion, principally driven by inventory receivables. This is worse than expectations, primarily driven by lower-than-anticipated power volume, which resulted in lower earnings and higher inventory on hand. We also had lower oil and gas collections versus plan.

Contract assets were a use of $800 million in the quarter. Of the $800 million, $300 million was from our equipment contracts, given the timing of our revenue recognition milestones which will catch up as we execute against these contracts. The remaining $500 million is from our long-term service agreements due to better cost performance and parts life, primarily in power and transportation.

All other operating cash flow in the quarter was $1.3 billion, driven by two things. First, we had non-cash expenses such as intangible amortization and pension that are adjusted out in this line. Second, we had a $500 million correction for the first half related to derivative hedge settlements that had been incorrectly classified in operating cash flow versus investing cash flow. Our first-half CFOA was underreported by $500 million.

We ended the quarter with $12.8 billion of cash on the balance sheet, which includes $4.8 billion of cash in Baker Hughes GE. Our performance was below expectations in the quarter primarily driven by power, which is facing challenging market conditions. The balance of the segment performance was in line with expectations on cash.

On consolidated results, 3Q revenues were $33.5 billion, up 14%, with industrial revenues of $31 billion, up 17%. The growth year-over-year was principally driven by the water gain in the Baker Hughes acquisition. As you can see on the right side of the page, industrial segment revenues were up 10% on a reported basis but down 1% organically.

Industrial operating plus vertical EPS was $0.29, down 9% versus prior year, driven substantially by industrial segment op profit down 10%. Gains and restructurings had no net impact in the quarter, as the water gain of $0.21 was offset by $0.08 of restructuring and $0.13 of impairments, which I'll cover on the next page. That compared to $0.04 of net restructuring after gains in 3Q of 2016.

Operating EPS was $0.26 in the quarter, down $0.01 from 3Q 2016. This incorporates other continuing GE Capital activity, including excess debt and headquarter runoff costs that I'll cover in more detail on the GE Capital page. Continuing EPS of $0.22 includes the impact of nonoperating pension; and net EPS of $0.21 includes discontinued operations. Total disc ops impact was a charge of $105 million in the quarter. The GE tax rate was a negative 4% in the quarter, driven by the low tax water gain.

Excluding gains and restructuring, our tax rate was in the mid-teens. We currently expect a GE tax rate for the year in the low single digits, including the effect of the low taxes on water. As a result, our fourth-quarter rate is expected to be around zero. Adjusting for gains and restructuring, our total-year tax rate is projected to be in the low to mid teens.

On the right side of the segment results, as I mentioned, industrial segment revenues were up 10% on a reported basis, down 1% organically. On a year-to-date basis, industrial segment revenues are up 2% organically. Industrial segment op profit was down 10%; and industrial op profit, which includes corporate, was down 7%. The decline year-over-year was driven principally by power and oil and gas, while the other segments and corporate were up strongly, plus 23% combined. I will cover the individual segment dynamics separately.

Next on one-time items, as I said, we had $0.08 of charges related to industrial restructuring and other items, $0.06 of that related to GE activity, and $0.02 related to Baker Hughes GE integration and synergy investment. In total, restructuring and other items were $1 billion before tax, with restructuring charges totaling about $700 million pre-tax; and BD M&A charges of approximately $300 million related to Baker Hughes, the LM acquisition, and the water disposition. The restructuring charges were higher than we originally planned, driven by the accelerated restructuring actions we had taken at corporate.

We also had two impairments in the quarter. As you know, during the third quarter, we perform our annual impairment test of goodwill for all reporting units. Based on the results of our testing, the fair values of each of the GE reporting units exceeded their carrying values, except for our power conversion reporting unit within the power segment. The primary factors contributing to a reduction of fair value of this reporting unit were extended downturns in marine and oil and gas markets, increased pricing pressures in the low-margin renewable market, and delayed introduction of new technologies and products.

As a result of the analysis, we recognized a non-cash goodwill impairment of $947 million in the quarter to write down the carrying values of power conversion's goodwill to its implied fair value. We also recorded $315 million asset impairment related to a power plant investment made in 2010 to launch the older technology steam-cooled H turbine. Given the overcapacity in the California market, we booked an impairment driven by anticipated exit of the asset. Together, those impairments totaled $0.13.

We sold our water business on September 30 and recorded a corresponding gain of $0.21. At the bottom of the chart, you can see a year-to-date summary. Through the third quarter, we recorded $0.22 of restructuring and other charges, $0.13 of impairments, and $0.21 of gains, for a net charge of $0.14. Jamie will take you through an outlook for the fourth-quarter restructuring in a few pages.

Next I'll cover the segments. I'll start with power, which now represents the combined power and energy connection segments. We are severely disappointed in the results of power, and are taking action to position the business going forward. This includes a refocus on the basics, significant additional cost-out plans, and changes to management, including announcing a new head of power services this week. The business has been undergoing market changes and we haven't changed fast enough with it. The market demand for heavy-duty gas turbines has declined to 40 gigawatts this year, down from 46 gigawatts last year.

The structure of the service market has also changed, as we discussed on the second-quarter conference call, driven by renewables, fleet penetration for AGPs, lower capacity payments, utilization, and outages. However, the decline we saw in our service business in the third quarter was much sharper than the decrease in the first half. We expect these issues to persist through the fourth quarter and into 2018.

Let me give you some color on the performance of the business during the quarter. Year-over-year, power revenues were down 4%, with profit down 51%. Let me start by walking you through the dynamics contributing to the significant negative leverage driving margin compression of 700 basis points.

There were really three drivers: first, a decline in the market year-over-year, principally in our service business, aeroderivatives, and power conversion. Within services, we had less AGPs, down 54%, and lower outages. Outages were down 18% in the third quarter versus down 12% in the first half, a 50% acceleration in decline. Aero-derivative units were down 32 versus the third quarter of last year and far off our expectation in the quarter.

Second, poor execution resulting in project delays and cost of quality items. In addition, we had to establish a bad debt reserve for our Venezuelan receivable.

Third, the mix effect of having lower volume in our high-margin aero and service businesses, and higher volume in low-margin grid and balance of plant resulted in a substantial margin headwind.

Now let me talk about performance relative to our expectations. Power was sharply lower than we expected. Most of that miss was driven by aero and services volume. We'd expected to ship twice as many aero units in the quarter, but due to customer financing needs and geographic deal complexity, these transactions did not close. Services was also below our expectations. We shipped 13 AGPs versus our plan of 39 coming into the quarter. This miss was driven by a forecast that did not reflect lower customer demand from higher fleet penetration and longer customer paybacks, and several large deals that were delayed moving into 2018. Outages and other transactional services were also below plan. As a result, power services in total will likely be down about 20% for the year.

Let me give you also some color on orders and revenue in the quarter. Orders for power were $8.3 billion, down 18%. Equipment orders were down 32%, with power down 37%, and energy connections down 25%. Power was lower are fewer aero units, down 75% on nine units versus 36 units for last year. And lower balance of plant, down 83%, on no repeat of large order in Bahrain for $750 million last year. Gas turbine unit orders totaled 15 versus 11 a year ago, including three H units. Service orders were up 1% at $4.4 billion. Energy connections was down 5%, and power was up 1%. AGPs were 14 units versus 24 a year ago.

Revenues of $8.7 billion were down 4%. Equipment revenues were down 3% on lower aeroderivatives, with units down 78%, nine versus 41 last year. Gas turbine shipments were down eight, 22 versus 30 a year ago. This was offset partially by higher HRSGs and balance of plant, which grew 63%. H unit shipments were two versus seven last year. We expect to ship 23 H units this year, with all remaining fourth quarter H shipments in backlog.

Service revenues of $4.3 billion were down 4%, with energy connections up 6%, and power down 5%. Power services were down on lower AGPs, down 54%, at 13 versus 28 units last year, and outages were down 18%. Our CSA [cum catch] adjustments in the quarter were $323 million, down from last year's $366 million.

The new guidance we have for the total year includes an outlook for power in the fourth quarter that should de-risk our volume assumptions. We are now forecasting AGPs at 80 to 90 for the total year, down from the previous 155 to 165 forecast. We have taken down our total-year aero forecast from 96 units to 50 to 55 units in shipments. We also expect outage and other transactional service to be lower the plan in the fourth quarter. And as I mentioned before, service in total will likely be down about 20% for the year. Gas turbine orders and shipments remain on track.

So, all in, a very disappointing quarter and outlook for 2017. But we have new leaders in place in the business, with a focus on cost out, cash, and pragmatic views of the market. We have a tough 2018 in front of us, but feel optimistic about the business beyond that. We will discuss more with you on November 13.

Next is renewables. Renewable energy orders were at $3 billion, down 1% reported and down 7% organic, driven by no repeat of a large Merkur order last year in our offshore business of $634 million. Onshore wind orders were strong at $2.6 billion, up 33%. Onshore equipment orders of $1.9 billion were up 36% on strong international wins in Australia, Thailand, and Serbia.

Partly offsetting strong international activity, US orders were down 41% on tough comparison to PTC Safe Harbor orders last year.

The total units ordered were 693, up 17%, with megawatts up 40% versus last year. Onshore's service orders of $706 million were higher by 27% on continued strength in US repower orders. Hydro orders of $198 million were down 50%, and offshore was down substantially with no repeat of the Merkur order, as I discussed previously. LM blade orders totaled $147 million in the quarter.

Revenue grew 5% reported and were down 2% organic. Onshore wind was down 1%, offset by service up 3 times on repower volume. Hydro revenues grew 30%. LM revenues totaled $161 million in the quarter. Operating profit of $257 million was up 27% and up 13% organically, driven by US repowering volume, better product cost, partially offset by price. Margin rates improved 150 basis points with LM, and expanded 110 basis points organically.

Next, on aviation, global passenger RPKs grew 7.9% August year-to-date, with strong growth both domestically and internationally. Air freight volumes have been very strong as well, growing 10.5% August year-to-date. Load factors globally remain well above 80%.

Orders in the quarter totaled $6.9 billion, up 12%. Equipment orders grew 8%. Commercial engine orders were flat at $1.4 billion on higher CFM and GE90, offset by lower LEAP and Gen X orders. These orders did not include any of the Paris Air Show announcements.

Avio grew equipment orders 46% in the quarter, and military equipment orders were up 10%, including $92 million of F414 orders from the Navy. Service orders grew 13%, with commercial services growing 11% on spares growth of 21% at $23.2 million a day; and military services up 56%, driven by orders for advanced combat engine and advanced helicopter programs.

Revenues in the quarter grew 8% to $6.8 billion. Equipment revenue was down 5% on lower commercial engine shipments of 641 engines versus 654, with higher LEAP deliveries largely offsetting fewer legacy engines. The business shipped 111 LEAP engines, including 23 Boeing 1B retrofitted engines associated with the LPT disk issue from earlier in the year. Military equipment revenues were down 20%.

Service (inaudible) revenues grew 18% on higher commercial spares, up 21% to $23.2 million a day; and another strong quarter in military, up 33%, largely driven by spare part demand. Operating profit in the quarter of $1.7 billion was up 12%, primarily driven by volume, structural cost productivity, and value gap, partially offset by margin pressure from higher LEAP shipments. Margins expanded 90 basis points in the third quarter.

Next is healthcare. Healthcare orders of $5.1 billion were up 6% versus last year. Geographically, organic orders were up 4% in the US; 8% in Europe; and emerging markets grew 11%, driven by China, which was up 20%.

On a product basis, healthcare system orders grew 5%, driven by ultrasound higher by 11% and imaging up 8%, with good performance in mammography and CT. Life sciences continued strong performance, growing 14%, driven by bio process growth of 17% and core imaging up 9%. Revenues in the quarter of $4.7 billion grew 5% with healthcare systems higher by 4%, and life sciences up 10%.

Operating profit was up 14%, including a small gain on a disposition of a nonstrategic operation in our life sciences business. Excluding the gain, op profit grew 8%, driven by volume and productivity, partially offset by price and program investments. Margins expanded 140 basis points reported, and 50 basis points organically.

Next on oil and gas, Baker Hughes GE. As you know, we closed the deal on July 3. The new company positions BHGE well for the broad structure of services that customers have been asking for. And we believe the timing of the deal was right for both Baker and GE's shareholders. The team is up and running with the integration and making significant progress. The synergy pipeline remains strong, and the team continues to receive positive feedback from customers and employees.

BHGE released its financial results this morning at 6:45, and Lorenzo and his team will hold their earnings call immediately following the GE earnings call today.

We own 62.5% of BHGE, which means we consolidate 100% of their orders, revenues, and cash flow from operating activities. However, the segment operating profit and net income are net of 37.5% minority interest attributable to Baker Hughes' Class A shareholders. Also, the operating profit we report for oil and gas is adjusted for GE reporting conventions, such as excluding restructuring and BD charges. Therefore, our 62.5% of profit will differ from what BHGE shows as operating income. We have included in the supplemental presentation a walk from BHGE reported results to what we show as segment op profit.

The business now has four reporting segments: oilfield services, which is predominantly legacy Baker Hughes products; turbomachinery and process solutions, which is the GE turbomachinery and downstream businesses; oilfield equipment, comprised of GE subsea and drilling and pressure control; and digital solutions, which is a combination of GE digital solutions plus Baker Hughes' pipeline solutions business.

To provide perspective of the ongoing business performed, I'll provide a comparison to the combined business based on financials as if the merger had taken place on 1/1 of 2016. The supplemental financial information is included in the 8-K that BHGE issued on September 6. For reference, I will give you the total organic orders and revenue comparisons as well. These would be the results of our legacy oil and gas business.

Orders were $5.7 billion, up 130% reported and up 27% organically. On a combined business basis, orders were up 18%. All segments were up in the quarter, with oilfield equipment up 45% and digital solutions up 43%. Revenues were up 81% reported and down 7% organically. On a pro forma basis, revenues were flat. Oilfield services was up 9%, and turbomachinery was up 2%, more than offset by oilfield equipment down 28%, and digital solutions down 2%.

Segment operating profit was $231 million, down 35% reported, and down about 70% in our legacy oil and gas business, primarily driven by longer cycle oilfield equipment business. As I mentioned earlier, this represents GE's share of Baker Hughes' GE earnings, adjusted for restructuring and reporting differences between GE and Baker Hughes GE.

Next is current and lighting. Orders for current were $234 million in the quarter, down 29% on a non-repeat of a large financial services company retrofit and runoff of our traditional lighting products. Revenues of $483 million were down 16%, driven by market and product exits. Operating profit was $23 million versus a loss of $15 million in the third quarter of last year. We are completing the buildout of the current business and the restructuring of our legacy business and products.

Finally, I'll cover GE Capital. The verticals earned $300 million in the quarter, down 36% from prior year, driven primarily by impairments associated with two investments in energy financial services and at our annual impairment review at GECAS. GECAS annual impairments totaled about $50 million, primarily driven by four 777 aircraft.

Other continuing operations generated $275 million loss in the quarter driven by $318 million of excess interest expense; $43 million of runoff operating expense and restructuring costs; $36 million of preferred equity cost, partly offset by gains from asset sales. In total, other continuing operations were $166 million better than last year, driven by lower excess interest and lower headquarter restructuring costs.

GE Capital ended the quarter with $155 billion of assets, including $33 billion of liquidity, down $6 billion from the second quarter. As I mentioned on our last earnings call, we have recently observed elevated claims experience for a portion of the long-term care [bark] at GE Capital's legacy insurance business, which represents $12 billion or roughly 50% of our insurance reserves.

As a result, we began a comprehensive review in the third quarter of premium deficiency assumptions that are used in the annual claims reserve adequacy test. This is a very complex exercise, and the team is making good progress. We expect to complete this process by the end of the year. Until the review has been completed, we have deferred the decision to pay approximately $3 billion of additional GE Capital dividends. Year to date, GE Capital has paid $4 billion of dividends to GE.

Lastly, in other continuing operations, we continue to expect incremental tax benefits in the fourth quarter associated with the recovering a portion of the exit plan tax costs we incurred when we announced the restructuring.

Next, I'll hand it over to Jamie to cover transportation.

Jamie Miller - *General Electric Company - Incoming CFO*

Good morning. Hi, this is Jamie Miller. I'm glad to be here, and I'm looking forward to working with all of you. I thought I'd take you through transportation's results this morning. But before I do that, just a little bit of background on me.

I actually spent most of my career outside of GE. I was a partner at Pricewaterhouse Coopers. I led Investor Relations and much of finance at Wellpoint, now Anthem. And I joined GE nine years ago as GE's Chief Accounting Officer. Since then, I have been our Chief Information Officer, and most recently the CEO of GE Transportation. Most of my career is in finance, and I know GE and its businesses very, very well. I'm happy to be back at corporate. I'm happy to be working with John and really helping to reevaluate and set a new course for GE.

Picking up on transportation, North American carload volume was up 3.8% in the quarter, primarily driven by intermodal carloads, up 6.6%, and commodity carloads, up 1.1%. Parked locomotives ended the quarter at about 4,000 units and we expect the market for new locomotives will continue to remain challenging. Orders of $1.072 billion were up 54% on easy comparisons, primarily driven by strong volume in services, both mining and locomotive transactional services. Backlog at the end of the quarter sits at $14.5 billion.

Services backlog was impacted in the quarter by $3.1 billion by a termination notice received from a large North American customer. This contract covers 800 locomotives, most of which are currently in service. And the termination, while it had no financial impact on the quarter, we do expect to finalize our new service arrangement in the near future. And in the meantime, we continue to service the units.

Revenues of $1.074 billion were down 14%, with op profit down 11%. This was driven by lower locomotive shipments, partially offset by services volume and cost productivity. And for the year, the business will deliver about 450 locomotives. Op profit will be down double digits. Total North American shipments will be down 73% this year, with international up 46%.

The team has really executed well during a difficult market decline really by focusing on cost out. We've taken 20% of structural cost out over two years, resizing and relocating the business operations while winning international orders. On September 30, we signed our agreement with Egyptian National Railways worth $575 million for 100 locos and services. That will be recognized as an order in the fourth quarter.

And lastly, our 1,000 locomotive contract in India has been in the press recently. We have had several meetings with the Indian government, and we're confident that the agreement is moving forward as planned. The first locomotive actually arrived on the ground in India last week. And we'll ship two locomotives in the fourth quarter, and then about 75 to 100 units per year after that.

So a little bit on my focus areas in the next few weeks. I've been in Boston for about 10 days now, and first John mentioned his Company review. I'm deeply engaged in that process with John and the team. We've got great franchise businesses, but we're really focused on -- how do we really simplify the Company and create the right clarity and construct for value creation? We need to make the Company far less complex, and we've got to bring a much deeper level of operating rigor.

I'm also reevaluating our metrics and reporting and I'll take you through that in more detail on November 13. But as some examples, we'll be moving off of the industrial and verticals EPS reporting. We will conform the GE definition to industry-standard on free cash flow. And we're really looking at -- how can we report in a much cleaner way, just a much simpler presentation of what you see? I'd kind of call it a back-to-the-basics approach: consistency and transparency, but with data that you can digest. And I want your feedback here, but that's the target.

On the right-hand side of the page, we lay out some thoughts on the rest of 2017. As Jeff mentioned, power has seen more difficult market conditions than we planned, with a sharper decline in services in the third quarter. And we expect those conditions and relative performance to continue as we move into the fourth quarter.

The team has taken a fairly pragmatic view of the outlook. They are focused on cost out and really rightsizing the business. On aviation, the business performance was stronger in the third quarter than we expected, as commercial spares continued to grow strong double digits versus high-single-digits estimate. In the fourth quarter, we expect margin rates to be pressured from higher LEAP shipments. And we expect 150 plus more than last year in LEAP shipments, and expect to see moderating spares growth. But based on current year-to-date performance, we expect margin rates will be positive for the total year.

Oil and gas and transportation end markets continue to be challenging. And we expect healthcare performance to be consistent with third-quarter year-to-date, with low- to mid-single-digit top-line growth, with stronger growth in op profit and continuing margin rate expansion. This business is executing well on simplifying the structure and reducing costs in both product and manufacturing while investing in the next generation of digital products and solutions.

At GE Capital, Jeff mentioned that we expect our insurance actuarial review to be concluded in the fourth quarter. As many of you may know, this book of business includes long-term care reinsurance, which can be quite difficult to analyze and reset the reserves. Jeff mentioned the decision to hold off on the GE Capital additional dividends for the third and fourth quarters until that analysis is finalized.

In addition, in GE Capital other continuing operations for the fourth quarter, we expect incremental tax benefits associated with recovering a portion of the GE Capital exit plan tax costs we incurred. And restructuring charges should be about $0.10 or maybe a bit more in the fourth quarter, up from prior guidance of $0.05. The industrial solutions sale is now expected to close mid-2018.

On cash flow, we now expect industrial cash flow for the year to be about $7 billion, and that's with Baker Hughes GE reported on a dividend basis, post-transaction. This is well below the $12 billion estimate we provided at second-quarter earnings, and it's principally driven by three businesses. Power is the biggest driver on lower volume, higher inventory, and the timing of payments on long-term equipment contracts. Oil and gas is about $1 billion off; about half of that being driven by lower volume and collections in the first half, and the rest driven by our methodology change to show them on the dividend basis for the second half of the year. And renewables is also about $500 million off on lower-than-expected volume impacting inventory and progress collections.

So lastly, as John and I go deep on the Company in the 2018 framework, there also may be held-for-sale charges in the fourth quarter related to the portfolio review. So we will discuss all of that, and 2018, at John's Investor Outlook Meeting on November 13.

John Flannery - *General Electric Company - Chairman and CEO*

Great. Thanks, Jamie. I'm going to wrap up with the 2017 framework. For earnings, our estimate for industrial and vertical EPS is $1.05 to $1.10. This excludes any potential insurance adjustment or charges for assets held for sale that Jamie just mentioned.

The key drivers versus our $1.60 framework are the following things: one, power down significantly on lower services earnings and lower aero units. Second is higher restructuring and other charges, over $0.45 for the year, including the power conversion goodwill charge; and, third, lower earnings from Baker Hughes than planned; and, lastly, lower buyback than we originally planned.

As Jamie mentioned, cash will be approximately $7 billion for the year. Power alone will be lower than expected by $3 billion on lower earnings and higher inventory. Oil and gas and renewables will also come in lower than our plan.

We expect substantially higher cash generation in 2018 driven by lower structural headwinds, things like tax and restructuring charges; a rigorous cost-out plan; and a substantial improvement in working capital. That said, obviously, $7 billion of cash is significantly lower than guidance, and this performance is simply not acceptable. There needs to be real change, and you should know that this team is committed to that. I'm confident that we understand the issues and know the path forward. I look forward to going through our Company outlook with you on November 13.

And with that, Matt, I'll turn it back over to you.

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

Thanks, John. We've got a lot to cover. With that, operator, let's open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Steven Winoker, UBS.

Steven Winoker - *UBS - Analyst*

Welcome to the new role, Jamie. John and Jeff, I'm sure investors appreciate the acknowledgment that 3Q showed unacceptable results. And I know you quickly mentioned in your upfront remarks, but I really have to start with sustainability of the dividend. Right now we're talking about an $8 billion dividend, which gets me to something like an 88% payout ratio this year at the high end of guidance.

And then more importantly on cash flow, we're talking about something like $7 billion of CFOA, as you mentioned, before CapEx of, I think, about $4 billion; which leads me to only about $3 billion of free cash flow before any GE Capital dividend, which you've now postponed due to the insurance actuarial review. So, how is that level of dividend sustainable without jeopardizing the future growth of the Company? And can you give us some sense of what you see as a sustainable payout ratio, may be something closer to 40% to 50%?

John Flannery - *General Electric Company - Chairman and CEO*

Steve, this is John here. Just a few things I'd say on dividend. First and foremost, we still have some moving pieces in motion, and we will bring this all together for you in November, as we said earlier. I'd just go back from there to a few thoughts. One is philosophy, managing for total shareholder return, so there does need to be a balance of investing in growth, organic and inorganic growth, and the dividend payout. So there's a philosophy expected balance. We will present this framework in November as we complete the 2017 and 2018 process. It's a serious process we need to go through as a team.

The last thing I'd say is just as a frame of reference. The 2017 number of $7 billion cash position, cash flow, is not a ZIP Code we are going to remain in. We expect improvement in that cash flow substantially in 2018. There's some structural issues like tax and restructuring charges that will not recur. We've -- $2 billion plus of cost-out will be cash. There will be improvements in working capital.

But bottom line, I'd say total shareholder return, we'll come back to you in November with a final assessment. I understand your question, and we don't plan to stay at a $7 billion cash flow generation number.

Jamie Miller - *General Electric Company - Incoming CFO*

Steve, I would just add to that. When you really think about a 2017 to 2018 comparison, John mentioned first sort of the structural headwinds in 2017 that don't repeat. There's a one-time tax cost in power of about $1 billion. We've got higher cash costs for restructuring in 2017. And we also had the PTC dynamic and the progress burn on renewables that we won't see again in 2018. So the structural piece of this is about $2 billion in 2017.

When you think about 2018, we're going to get the benefit of more cost out. John talked about that right up front, and those actions have been taken throughout this year and will accelerate as we go into next year. We're also going to see some real working capital improvement. You know cash flow was hit this year by working capital burn. As we go into next year that's really going to flip as we burn down that excess inventory build in both power and renewables. On a free cash flow front, we will have lower CapEx and software spend next year.

And so, there's headwinds here. And I think you're going to -- you've seen that in the discussion earlier, and I'm sure we'll talk a little bit more about power -- power, transportation, and a few others. But the tailwinds, both the structural and the operational, should really more than offset that as we get into 2018.

Jeff Bornstein - *General Electric Company - Vice Chairman and Outgoing CFO*

That's great, Jamie (multiple speakers) in the end here is we came out of the quarter with $8 billion of cash, $12.8 billion with Baker Hughes. We expect to go out of the year with about $8 billion of GE cash, plus Baker Hughes. And that's after we paid the dividend here in October, and after we deal with a GE Company maturity here in the fourth quarter of about $4 billion.

Steven Winoker - *UBS - Analyst*

Right. So that covers it for this year, right, Jeff?

Jeff Bornstein - *General Electric Company - Vice Chairman and Outgoing CFO*

Yes.

Steven Winoker - *UBS - Analyst*

Okay. So as a follow-up, John, I'd like to ask about this notion -- and I know you are going to go into more detail in November -- but just to start to think at a higher level of when GE earnings and cash flow hits what investors can think about as a trough, and by how much. When you start growing again, particularly in light of power's performance? And what I expect will be much larger restructuring actions taken than you've talked about beyond the $1.3 billion in fourth quarter.

So, this point of -- you're talking about 2018 having a lot of benefits that 2017 doesn't have. But how should investors get some certainty about when they can think that GE is in trough?

John Flannery - *General Electric Company - Chairman and CEO*

So listen, I would say -- I would characterize this and think of 2018 as a reset year. As you know from the outset of the call, we have a lot of businesses performing well. We have significant issues in power. Those will persist into 2018. And there's a lot of structural actions we need to take as a company: cost-out actions, capital allocation actions. Those will play out, I'd say, during 2018. And I would look at that as a reset year, and a foundation for growth in cash and earnings and margins going forward into 2019 and beyond.

Operator

Andrew Kaplowitz, Citi.

Andrew Kaplowitz - *Citigroup - Analyst*

I just wanted to follow up on Steve's question on power. When we step back and look at the entire business, obviously you've taken a reset here in guidance. And when you look at the business in terms of AGPs, aero units, just the total services, we know you don't want to give us specifics on 2018 yet, and you've already talked about expecting a tough 2018. But do many -- or really any of these shipments move into 2018? And how much cost out can -- how much can cost out help you stabilize the business in 2018 and beyond?

Jeff Bornstein - *General Electric Company - Vice Chairman and Outgoing CFO*

I'll start. So, as you would imagine, we essentially have a new team in power, and they're going very deep, not just on structurally what's going on in services and how we think about on a go-forward basis, but also the structure -- the cost structure of power itself. This is something John and I have been on for the last four or five months. We don't have a cost structure that reflects the market that they're competing in. And we need to get it at it. And they are deeply, deeply engaged in letting that out for 2018. That is critically important to getting the business stabilized and moving forward.

I think one of the things we're trying to do is, over the last three or four years, I would say, the amount of convertible short-term volume that their business have been -- whether it's AGPs or aero units, et cetera -- has grown over time. And one of the things we're trying to do is get the business stabilized on what is a pragmatic look at volume, not just in the fourth quarter, but for 2018, that sets the business up for the long-term. And I think that that's what the team is pulling together. They and John will share with you in November when they stand up. But I think we're focused on all the things you would expect us to be focused on in power, and the team is really digging in.

John Flannery - *General Electric Company - Chairman and CEO*

Andy, just one other thing I'd add to that. We've spent a lot of time in power. I've been there several times already. We've had a lot of time with the teams. When I look at that business and that situation for us overall, I really put it into three basic thoughts: one is the macro situation; two is our franchise; and three is how we have executed and how we've run the business. The macro situation is challenged, definitely. It's a very dynamic industry. There's a lot of disruption, especially in North America; overcapacity, utilization -- you guys all know the issues. So there's a lot going on in the industry.

But I think even in a number of scenarios that you'd look at, there's going to be some growth -- 2%, 3%, 1%; there's a range of forecasts -- of electricity generation coming from gas power over the next 10 years. So you've got emerging markets, et cetera. So it's a challenged macro environment, for sure, but there's a base there.

Second is our position. This gets to the notion we have strong franchises. We've got leading technology. We've got 50% share in the H class, large installed base, 30% of the world's electricity coming off the machines. So, macro is tough; franchise is really quite solid. The execution has been the issue here.

As Jeff said, we just fundamentally did not see the change in the market. And we kept it in open throttle position, if you will, and did not take enough cost out quickly. And we've been left with inventory that was overly optimistic. So, as I step back and look at from where we are today -- Russell, the team -- they're really digging into the business. I see a lot of opportunity to move forward in terms of cost out, margin rates, et cetera. So it's an inherently good franchise in a tough market, and we can run this better.

Operator

Julian Mitchell, Credit Suisse.

Julian Mitchell - *Credit Suisse - Analyst*

Just a question looking at power, and the relationship of that to your commentary of significant CFOA improvement in 2018. Because I guess a lot of the CFOA shortfall this year is because of power, and you said there's, I think, $3 billion less cash than expected in that business. It's obviously a backlog business. I would guess the pro forma power backlog today, including energy connections, is $100 billion or so. And given that the power market will stay tough in 2018, how do you reconcile the significant overall firm-wide CFOA improvement with a very tough power market again in 2018 and maybe further out?

Jeff Bornstein - *General Electric Company - Vice Chairman and Outgoing CFO*

So I'm going to start; then I'm going to let Jamie give you her views on 2018. I think it's a good question. We do have a big backlog. That's an asset, we believe, not a liability. But if I were going to focus on three things from 2017 to 2018 in power, one is inventory. So in total for the Company this year in the $7 billion CFOA construct that Jamie talked about, a big piece -- almost $2 billion -- of that is an underperformance in inventory versus the working capital assumptions we had for the year at $12 billion, which was about a $3 billion flow. And virtually all of that inventory is power.

So where we were overoptimistic planning on both services and units inventory, that inventory is going to liquidate over time and we will get a big benefit, we believe, in 2018.

Second is in 2017 we had about $1 billion of tax associated with restructuring between Hungary and Switzerland as part of the Alstom thing. That cash outflow will not repeat next year. And then, I think, importantly, the third leg, if you will, is a meaningful cost out, which also equals cash -- a meaningful cost out of the structurally and what's going on in power, which they are well underway on. We're not waiting to exercise these actions. We're taking these actions as we speak. And that also will be a contributor to a better profile in 2018.

Jamie, you want to --?

Jamie Miller - *General Electric Company - Incoming CFO*

Yes. Jeff, I'd say you touched on the big items, which is the tax piece, the higher cash costs this year for restructuring, more cost out really helping us as we get into 2018. And as you can imagine, John talked about the $2 billion plus; a big percentage of that is power. And then the working capital improvement.

I guess I would just say this, though, too: we're going to take you through a more detailed view of this and all of 2018 on November 13. We've taken a pretty pragmatic view towards this. And I think what you see in terms of us looking at the total year 2017, as well as how we are thinking about 2018, will be tempered as it relates to power. We do expect the conditions that we're seeing to continue as we move into that. But some of the structural stuff that underlies that cash flow should be a tailwind to offset that.

Operator

Jeff Sprague, Vertical Research Partners.

Jeff Sprague - *Vertical Research Partners - Analyst*

There's been a couple elephants in the room leading up to today, and another one has been the contract asset account, which is also built upon numerous assumptions. As we sit here and listen to aggressive forecasts, unrealistic assumptions, et cetera, particularly in power, how do we get comfortable with what's gone on in that account? And have you guys actually been able to scrub through that yet?

Jeff Bornstein - *General Electric Company - Vice Chairman and Outgoing CFO*

I'll start, and then Jamie will take -- so, we have, Jeff; we have been digging through that, I would say, over the last six months. I think we are very comfortable with where we are. And I think you've got to think about it, in power's case, in a number of buckets. The first is long-term service agreements. And I want to be clear here: in the third quarter with this performance, our productivity or CSA cum catch was actually down $45 million year-over-year. So it's a small contributor to where we are year-over-year in the quarter. But it's not that reason that we were way off where we thought we would be in the third quarter.

The second is we have really grown long-term equipment agreements. Now, this is 81-1 accounting. These are long-term contracts. They're generally anywhere from 12 to 24 months, where we build projects out, and along -- as we go along the way we incur cost, we rev rec on milestones, and then there's also cash billing milestones. And they don't always line up on top of one another.

That has grown over the last two years really as a function of two things. One is we added Alstom to the portfolio, which had a much higher content of long-term projects. And as we built out the H units, we've done a lot more full scope, much larger scope projects, even if it was just contained to the turbine island, all the way through HRSGs and the steam tail that we got with Alstom.

So the amount of this activity in the portfolio has grown. And as a result of that, our 81-1 balances, particularly in power, have grown. And so that cost, if you will, generally liquidates over 12 to 18 months. So we're higher this year by about $800 million than we originally forecast, almost all of that in power. But that will liquidate and turn to cash as we hit billing milestones over the next 12 to 18 months.

Jamie, you want to --?

Jamie Miller - *General Electric Company - Incoming CFO*

Yes. On contract assets, look, I'm deeply familiar with that model. And I've only been here in Boston for a couple of weeks, but I have gone through and sat through a number of the reviews with businesses, and I know GE balance sheet very well. Look, there's nothing I've seen that gives me any indication of an accounting issue here. I think Jeff explained it pretty well in terms of the long-term contract equipment build we're seeing.

John Flannery - *General Electric Company - Chairman and CEO*

Last thing, Jeff, I'd say just if you are trying to synthesize the power situation, I would say overly optimistic on the market; aggressive inventory build in TMs and AGPs; and not taking the cost out. Those three things have sort of combined to lead to an earnings shortfall and the cash pressure.

Operator

Scott Davis, Melius Research.

Scott Davis - *Melius Research LLC - Analyst*

John, it seems like you're making lots of changes at the management levels and direct reports and such. But what can we expect at the Board level? You could make an argument this current Board was kind of the Board that got GE to this bad spot. So how do you think about that -- changes in that regard?

John Flannery - *General Electric Company - Chairman and CEO*

So, just a couple of things on that, Scott. One is, as I said at the outset, we're looking at every single aspect of the Company, inside the Company and outside. And that includes the Board. So, everything has been on the table. I'd add that the Board has given me a mandate to look at everything with no constraints. They've then fully supportive of making change.

We announced recently that Ed Garden is joining the Board. I really look forward to that. I think that's going to enhance the dialogue at the Board level. I think a really robust dialogue, debate between the management and the Board, is a healthy dynamic. That's something I look forward to.

And then the last thing that obviously is referenced frequently is the Board is big at 18 people. There's no doubt about that. And that's one of the topics being discussed. So I would put it in the bucket of all things being examined right now.

Operator

Andrew Obin, Bank of America.

Andrew Obin - *BofA Merrill Lynch - Analyst*

I just wanted a question on cash flow. We've been getting questions on intra-Company receivables that was created when GE assumed debt from GE Capital. So first, is the timing of these receivables matched to the maturities of the debt assumed by the industrial company? Basically the question is: could there be a timing shortfall?

And finally, is there a risk that the assets rolling off GE Capital can't cover the size of their receivable, and you might need to put in more capital into GE Capital down the line, sort of crippling -- impacting industrial cash flow?

Jeff Bornstein - *General Electric Company - Vice Chairman and Outgoing CFO*

Andrew, there's no timing mismatch between GE and GE Capital. As opposed to going to external markets around some of the debt that we added this year -- we gave you a plan to increase net debt -- debt in the Company $12 billion this year. Some of that we've gone externally for; some of that we have taken from GE Capital by assuming existing external debt that GE Capital had on a fair value basis from a coupon perspective. But there's no mismatch of receivables or timing between GE and GE Capital whatsoever. And we don't have any reason to believe that the $155 billion of assets that GE Capital has is not going to service their outstanding debt.

Based on maturities here, the cash flows and earnings in the business, the GE Capital -- the excess liquidity that GE Capital is going to essentially run off here in 2019. And a lot of that outstanding debt is essentially defeased in our liquidity pool. So I don't see issues with either of those things.

Operator

Robert McCarthy, Stifel.

Robert McCarthy - *Stifel Nicolaus - Analyst*

I guess the question -- turning to the asset sales, as we have picked over the dividend quite a bit, is how do you think about the -- what's on the chopping block, how you are thinking about it, how you are thinking about the cash generation of some of these businesses?

Because despite the fact that you said at the outset that there isn't an existential question here with respect to GE, the fact of the matter is any asset sales that you're going to garner or that are going to be accretive or give a good valuation are probably some of the better cash- and growth-led assets of the Company.

So how do you get away from the fact that you might be selling businesses that ultimately leave you with a company with just structurally lower industrial free cash flow by definition?

John Flannery - *General Electric Company - Chairman and CEO*

So, let me just, for background -- I grew up 20 years in the financial services business, largely investing money. So this is sort of my background, to look at -- where do we invest? What are the structural opportunities? What are the risks? What risk-adjusted returns we can expect? So as an orientation, that's how I come into looking at our portfolio and how we allocate capital.

We do a lot of the capital allocation inside the Company, if you will. NPI spending, P&E, all those things; we're looking at that very intensely. A lot of the capital of the Company is allocated at that level, so we've got a very robust plan. And we're going to -- implementing and look at that inside businesses, between businesses. Should we put more money in business unit one or two, et cetera? So there is a deep analysis going and implementing inside the Company.

When I look outside the Company, and what our options are outside the Company, there are a number of businesses here we're really evaluating in that context. Can they compete? What's our competitive position? What's going on in the end markets? What are the returns on capital? How much capital do these businesses consume? How much management bandwidth do these businesses consume?

And as you start to array our entire portfolio, which is large and complex, and we want to simplify that, there are a number of assets -- some performing well, some not performing well -- that we just don't want to stay with over time. They are good companies that might have a better home somewhere else.

So, it's a dynamic process. It's a returns-based process. And at the end of the day, the exercise here is to really concentrate the economic firepower of the Company on the areas that promise the most substantial reward. There's a lot of areas we want to grow, in additive and digital and things. So we want to make sure we're channeling the money to the highest return option. And that will be a dynamic and ongoing process always for me.

Operator

Deane Dray, RBC Capital Markets.

Deane Dray - *RBC Capital Markets - Analyst*

I'd just like to follow up on Rob's question there; and John, your answer. You sized today a new disclosure, $20 billion in asset exits over 1 to 2 years. And maybe you can address the time frame in terms of might you be moving quicker in these exits? And also you talked about other options being considered beyond that $20 billion. Can you frame for us, both in size and thematically, how you might be looking at these other options beyond the $20 billion?

John Flannery - *General Electric Company - Chairman and CEO*

I'd say on size -- excuse me, on timing, just stick to the 1- to 2-year outlook. We have got a process going on right now. Depending on the type of transaction and structure, the speed of that will move -- if there are carveouts and things, we have work we have to do. So I wouldn't change the outlook for that.

With respect to broader than that, I would go back to what I said earlier, which is this is a dynamic process that I will do every day while I'm in this job, which is looking at all the portfolio and where we can create value and where we're competitive. So I don't have a specific thing to share with you today. We will review obviously in more depth in November. But it's going to be an ongoing philosophy and mentality and rigor that makes sure we're always investing in the right places.

Operator

Nigel Coe, Morgan Stanley.

Nigel Coe - *Morgan Stanley - Analyst*

Maybe John, just clarify the $20 billion. I'm a little bit confused. Is that $20 billion of sales, or is that estimated value of the asset sales you've identified?

John Flannery - *General Electric Company - Chairman and CEO*

It's a rough estimate of the asset value.

Nigel Coe - *Morgan Stanley - Analyst*

Okay, great. Fantastic. And then maybe Jeff or Jamie, you put out a $0.05 estimate for the impact of ASC 606. So can you maybe just mark us to market on where that sits right now? Thanks.

Jeff Bornstein - *General Electric Company - Vice Chairman and Outgoing CFO*

I'll give you a shot. We're not going to have a final number until we complete the year, so just to lay that down. Jamie is going to share with you in November an estimate of what we think the 606 -- 605 to 606 impact is going to be, 2017-2018. I would say generally the last thing we told investors was we expected 2018 to be about a $0.05 impact on transition.

We don't have final numbers here, but I think that's going to be a larger impact. I don't know exactly how much, but it could be between $0.05 and $0.08 or $0.05 and $0.10. And that will get closer to final when we move towards year end.

The other thing I want to caution everybody on: once we convert to 606 on January 1, those are the only books we're going to have. We're not going to keep two sets of books between 605 and 606. So, the ability for Jamie and the team in 2018 to go back and tell you exactly what that transition impact is going to be for the year, or any given quarter, is only going to be a very rough estimate. We're not going to keep two sets of books.

Jamie Miller - *General Electric Company - Incoming CFO*

So look, we'll take you through this on November 13. Obviously this is a big fourth-quarter focus area. The one thing I'd add to what Jeff said is the cum catch is still in the range of what we've been estimating before. And as we go through it, we'll lay out both how we think you should think about margins on long-term equipment, margins on services, and just how best to sort of gauge the 2018 to 2017 run rate views.

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

Great, thanks. John, before you wrap, we just want to thank everyone for joining. Know we ran a little bit long, but we wanted to try to get in as many questions as we could.

John, to you.

John Flannery - *General Electric Company - Chairman and CEO*

Great. Thanks, Matt. I'd finish where I started, just saying we're deeply disappointed in today's results. They are unacceptable. That is crystal clear to the team here. We fundamentally have a collection of good franchises. We have to run them better. We know what the issues are. We know what we need to do to fix them. And so I would characterize this as largely a self-help story here.

And I'd just say from here forward, we reset the Company for a better future. And on behalf of myself and I know definitely all of the GE employees, we look forward to delivering for investors. This is a company we have deep pride in, and you can count on us to deliver in the future. Thanks.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating, and you may now disconnect.
