



# GE 2017 fourth quarter performance

## Financial results & Company highlights

January 24, 2018

### **CAUTION CONCERNING FORWARD-LOOKING STATEMENTS:**

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

### **NON-GAAP FINANCIAL MEASURES:**

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

- Operating earnings and EPS, which is earnings from continuing operations excluding non-service-related pension costs of our principal pension plans.
- GE Industrial operating & Verticals earnings and EPS, which is operating earnings of our industrial businesses and the GE Capital businesses that we expect to retain.
- Industrial segment organic revenue, which is the sum of revenue from all of our industrial segments less the effects of acquisitions/dispositions and currency exchange.
- Industrial segment organic operating profit, which is the sum of segment profit from all of our industrial segments less the effects of acquisitions/dispositions and currency exchange.
- Industrial cash flows from operating activities (Industrial CFOA), which is GE's cash flow from operating activities excluding dividends received from GE Capital.

General Electric Capital Corporation (GECC) was merged into GE in 2015 and our financial services business is now operated by GE Capital Global Holdings LLC (GECGH). In this document, we refer to GECC and GECGH as "GE Capital". We refer to the industrial businesses of the Company including GE Capital on an equity basis as "GE". "GE (ex-GE Capital)" and/or "Industrial" refer to GE excluding GE Capital.

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

# Update since November 13<sup>th</sup>

## **Execution**

- 4Q cash performance above expectations ... strong focus, timing & execution
- \$1.7B structural cost out in 2017, targeting \$2B+ in 2018

## **Portfolio**

- Executing portfolio actions with over 20 deals in-flight

## **Board**

- Expect to announce new Board with proxy

## **Digital**

- Refocused to core, 4Q Predix-powered orders +41%; total year \$1.4B +153%

## **Compensation**

- Simplified programs for top 5,000 employees, aligned to investors



Execution + culture + more focused portfolio

## 4Q'17 overview

- Adjusted EPS at low end of guidance excluding \$(1.49) of charges for insurance, U.S. tax reform, portfolio actions
- Power market challenging; Power profit miss driven by market, execution, and charges
- Strong performance in Aviation and Healthcare; positioned to deliver in 2018
- Strong focus on execution and cash
- Cost out led by Corporate and Power

Team focused on execution in 2018: cash, cost, capital allocation, fix Power



# Orders & market highlights

(\$ in billions)

## Orders \$35.0B, +3%, organically (5)%

	Equipment		Services	
	\$	V%	\$	V%
Power	\$5.3	(24)%	\$4.9	(26)%
Renewable Energy	2.5	(12)	0.8	50
Oil & Gas	2.3	81	3.5	68
Aviation	2.9	2	5.1	17
Healthcare	3.7	11	2.1	4
Transportation	1.1	F	1.0	(23)
Lighting	0.3	9	0.0	F
<b>Total</b>	<b>\$17.9</b>	<b>3%</b>	<b>\$17.1</b>	<b>3%</b>
<b>Organic</b>		<b>(5)%</b>		<b>(5)%</b>

- ✓ Equipment (5)% organically driven by decline in Power on lower aero orders & gas turbine project scope, offset by strength in Healthcare & Transportation
- ✓ Services (5)% organically driven by Power Services offset by strength in Aviation, Renewables, & Healthcare
- ✓ Backlog \$341B, +\$13B versus 3Q driven by services



## Market highlights

**Power** ✓ Market remains challenging with expected heavy-duty gas turbine orders < 35 GW for 2017

**Aviation** ✓ Market strength continues: RPKs +7.7% and freight +9.7% October YTD<sup>-a)</sup>  
 ✓ Additive orders \$112MM

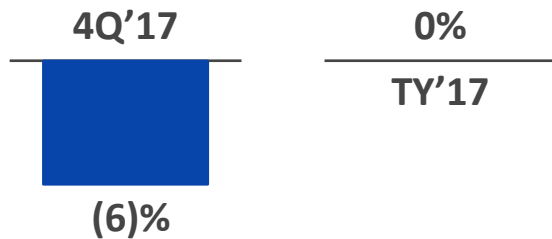
**Healthcare** ✓ U.S. & European markets stable; emerging markets up double-digits  
 ✓ 26 HCS NPI launches in 2017

**Renewable Energy** ✓ Strong U.S. MW growth in onshore wind but significant price pressure  
 ✓ Launch of 4.8 MW onshore wind turbine

# Industrial revenue, margins and cost

## Organic revenue

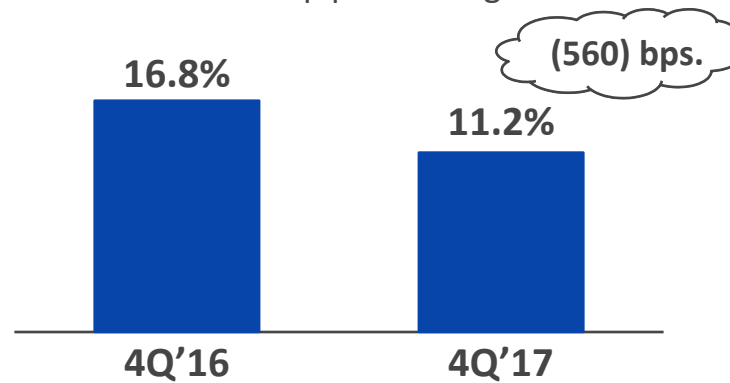
Industrial segments



- 4Q reported revenue +3%, organic (6)% ... FX (2) pts, acquisitions/ dispositions (7) pts.
- 4Q organic: Power (14)%, O&G (13)%, other segments +1%
- TY'17 organic: Power (1)%, O&G (8)%, Aviation +4%, Healthcare +4%, Renewables +8%

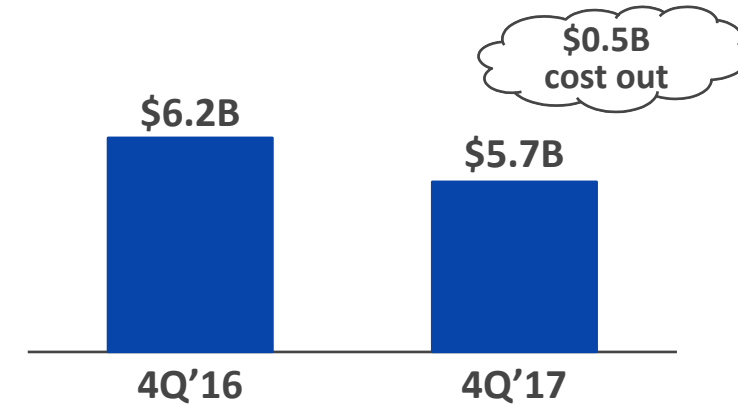
## Margin performance

Industrial op profit margins<sup>-a)</sup>



- Margin pressure driven by Power (16.7) pts., Oil & Gas (6.8) pts. ... Healthcare +1.3 pts., Renewables +0.6 pts., Aviation +0.4 pts.
- TY'17 Industrial margins<sup>-a)</sup> 12.1%, (190) bps. ... pressure in Power & O&G, strength in Healthcare & Aviation despite LEAP volume headwind

## Structural cost<sup>-b)</sup>



- \$1.7B structural cost out for total year, with strong performance in Power & Corporate
- Cost out driven by restructuring benefits and lower discretionary spend
- Targeting \$2B+ structural cost out in 2018



(a- Excludes non-operating pension, gains/losses and restructuring & other

(b- Excludes non-operating pension, gains/losses and restructuring & other; excludes impact from business development actions

# 4Q'17 consolidated results

(\$ in billions – except EPS)

	<u>4Q'17</u>	<u>V%</u>
Revenues	\$31.4	(5)%
– Industrial <sup>-a)</sup>	29.9	(2)
– Verticals	1.5	(41)
– Other Capital	0.1	(56)
Industrial + Verticals EPS	(1.23)	U
Operating EPS	(1.11)	U
Continuing EPS	(1.15)	U
Net EPS	(1.13)	U
CFOA	7.0	(40)
– Adj. Industrial CFOA <sup>-b)</sup>	7.8	(6)
	<u>4Q'17</u>	<u>4Q'16</u>
Consolidated tax rate	22%	(26)%
– GE (ex. Capital)	(576)	(2)
– Capital	47	231

(\$ in millions)

	<u>Revenues</u>		<u>Op profit</u>	
	<u>\$</u>	<u>V%</u>	<u>\$</u>	<u>V%</u>
Power	\$9,421	(15)%	\$260	(88)%
Renewables	2,875	15	203	25
Oil & Gas <sup>-c)</sup>	5,756	69	307	(25)
Aviation	7,222	-	1,786	2
Healthcare	5,402	6	1,159	13
Transportation	993	(20)	189	(40)
Lighting	546	(7)	50	F
Industrial Segments	\$32,214	3%	\$3,953	(32)%
Corporate <sup>-d)</sup>	(1,011)	(34)	(427)	31
Industrial <sup>-d)</sup>	\$31,203	3%	\$3,526	(33)%
Capital Verticals	\$1,490	(41)%	\$(7,585)	U

<u>Industrial + Verticals EPS</u>	<u>4Q'17</u>
Industrial operating	\$(.35)
Capital Verticals	(.87)
	<u>\$1.23</u>



(a- Includes GE-GE Capital eliminations

(b- Excludes deal taxes & GE Pension Plan funding; BHGE on a dividend basis

(c- Oil & Gas segment operating profit \$(105)MM including restructuring & other charges

(d- Excludes non-operating pension, gains/losses and restructuring & other

# Cash

(\$ in billions)

## CFOA summary

	<u>4Q'17</u>	<u>V\$</u>	<u>2017</u>	<u>V\$</u>
<b>GE CFOA</b>	<b>\$7.0</b>	<b>\$(4.6)</b>	<b>\$11.0</b>	<b>\$(18.9)</b>
Less: Capital dividend	-	(4.0)	4.0	(16.1)
Less: deal tax & pension	(0.4)	0.3	(1.9)	(0.2)
<b>Industrial CFOA</b> <small>(ex. deal taxes &amp; pension)</small>	<b>\$7.4</b>	<b>\$(0.8)</b>	<b>\$9.0</b>	<b>\$(2.6)</b>
Less: BHGE CFOA <small>(2H'17)</small>	(0.2)		(0.5)	
Plus: BHGE dividend	0.1		0.3	
<b>Adj. Industrial CFOA</b>	<b>\$7.8</b>	<b>\$(0.5)</b>	<b>\$9.7</b>	<b>\$(1.9)</b>

## Industrial cash dynamics

- TY adjusted Industrial CFOA \$2.7B above ~\$7B guidance driven primarily by timing of progress collections and lower contract asset growth
- Strong performance across Aviation and Healthcare; Power as expected
- 4Q working capital flow \$3.9B, total year \$2B
  - Inventory \$2.2B driven by higher shipments
  - Stronger than expected progress collections at \$1.5B
  - Payables \$0.6B, AR \$(0.4)B driven by BHGE
- No contract asset growth in the quarter driven by LTSA balance reduction offset by deferred inventory growth
- 2018 ... tough Power markets continue, 2017 stronger than expected progress collections ... no change to 2018 guidance

Strong 4Q performance ... 2017 Free Cash Flow<sup>a)</sup> \$5.6B and 81% FCF conversion



(a- BHGE dividend basis, excludes deal taxes and GE Pension Plan funding)

# 2017 cash

(\$ in billions)

<u>GE cash balance walk</u>	<u>GE</u>	<u>GE (ex. BHGE)</u>	<u>2017 dynamics (ex. BHGE)</u>
Beginning balance 1/1/17	\$10.5	\$8.4	• Ended 2017 with \$11.2B of cash ... up \$2.8B
CFOA (ex. deal taxes & pension)	13.0	13.5	• CFOA includes \$9.4B Industrial CFOA (ex. BHGE dividend) and \$4B GE Capital dividend
Dividends	(8.4)	(8.1)	• Acquisitions: Baker Hughes, LM Wind, ServiceMax
Gross capex	(4.6)	(4.1)	• Dispositions: Water
Acquisitions	(6.1)	(10.2)	• Long-term debt issuance of \$15.9B offset by maturities of \$4B
Dispositions (including deal taxes)	2.9	2.9	• Received \$0.6B in dividends and buyback from BHGE
Buyback	(3.8)	(3.5)	
Debt	15.6	11.9	
Change in Other	(0.9)	0.5	
<b>December 2017</b>	<b>\$18.2</b>	<b>\$11.2</b>	

Continuing to strengthen liquidity through disciplined capital allocation framework





# 4Q'17 other items

	<u>EPS</u>
<b>Industrial restructuring &amp; other charges</b>	<b>\$(.08)</b>
- GE restructuring \$(.05)	
- Oil & Gas restructuring \$(.03)	
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<b>4Q'17 additional charges</b>	
<b>Industrial portfolio-related charges</b>	<b>\$(.18)</b>
- Lighting held-for-sale \$(.10)	
- Aviation platforms held-for-sale \$(.06)	
- Power Conversion goodwill \$(.02)	
<b>GE Capital Insurance-related charges</b>	<b>\$(.91)</b>
- Reserve adjustment \$(.71)	
- EFS impairments \$(.20)	
<b>Tax reform-related charges</b>	<b>\$(.40)</b>
- GE Industrial \$(.43)	
- GE Capital Verticals \$.03	
	<hr/>
	<b>\$(1.49)</b>

- Industrial restructuring & other charges ... cost-reduction actions and BD charges
- Portfolio-related losses driven by fair market value adjustments on businesses held-for-sale (Lighting & two Aviation product lines)
- Power Conversion incremental goodwill impairment

<u>EPS guidance reconciliation</u>	<u>EPS</u>
3Q YTD Industrial Op. + Verticals EPS	\$.77
4Q Industrial Op. + Verticals EPS	\$(1.23)
Less: 4Q charges not included in 11/13 guidance	\$(1.49)
4Q Adjusted Industrial Op. + Verticals EPS	\$0.27
<b>2017 Adjusted Industrial Op. + Verticals EPS</b>	<b>\$1.05</b>
<b>2017 EPS guidance</b>	<b>\$1.05-1.10</b>



# Insurance update

- Legacy reinsurance businesses remained with GE following 2004-2006 Genworth & ERC exits; in runoff since exits, no new business since 2006
- Trend of adverse claims behavior primarily in long-term care book; in mid-2017, started process to re-evaluate all actuarial assumptions
- Increasing insurance reserves
  - Pre-tax GAAP charge \$9.5B; after-tax GAAP charge \$6.2B
  - Estimated statutory capital contribution of ~\$3B in 1Q'18 and ~\$2B annually from 2019-2024; total of ~\$15B over 7 years
- No impact to GE's ratings or capital allocation plan ... funding capital contribution within GE Capital
- Ongoing actions to make GE Capital smaller and more focused ... retaining capability to support Industrial business
  - EFS impairments after-tax \$1.8B related to goodwill & shortened hold period assumptions
  - GE Capital earnings post portfolio actions/excess debt ~\$0.5B
- \$31B of cash & short-term investments at GE Capital plus action plans to fund insurance



# U.S. tax reform

- Territorial regime allows access to overseas capital without incremental U.S. tax cost on future earnings
- \$3.5B charge associated with U.S. tax reform ... Industrial charge \$3.7B, GE Capital benefit \$0.2B
  - \$1.2B transition tax charge net of previously accrued taxes
  - \$2.2B non-cash charge to write-off credits unavailable due to reform and revalue other deferred taxes to 21% tax rate
  - \$0.1B valuation adjustment at GE Capital related to renewable energy investments
  - Limited cash impact ... expected to be largely offset with deductions and credits
  - “Provisional” estimate under SEC guidance ... will update in 2018 as further guidance released, amounts finalized
- Planning low to mid 20s % GE tax rate longer term

4Q charge from U.S. tax reform ... long-term benefit from territorial system and lower U.S. rate



# Segments

(\$ in millions)

	<u>Power</u>	
<u>4Q'17</u>	<u>\$</u>	<u>V%</u>
Revenues	\$9,421	(15)%
Segment profit	\$260	(88)%
Segment profit %	2.8%	(16.7) pts.

	<u>Renewable Energy</u>	
<u>4Q'17</u>	<u>\$</u>	<u>V%</u>
Revenues	\$2,875	15%
Segment profit	\$203	25%
Segment profit %	7.1%	0.6 pts.

	<u>Aviation</u>	
<u>4Q'17</u>	<u>\$</u>	<u>V%</u>
Revenues	\$7,222	-%
Segment profit	\$1,786	2%
Segment profit %	24.7%	0.4 pts.

	<u>Healthcare</u>	
<u>4Q'17</u>	<u>\$</u>	<u>V%</u>
Revenues	\$5,402	6%
Segment profit	\$1,159	13%
Segment profit %	21.5%	1.3 pts.



# Segments

(\$ in millions)

<u>Oil &amp; Gas</u>				<u>Lighting</u>		
<u>4Q'17</u>	<u>\$</u>	<u>V%</u>	<u>V%</u> Legacy O&G	<u>4Q'17</u>	<u>\$</u>	<u>V%</u>
Revenues	\$5,756	69%	(9)%	Revenues	\$546	(7)%
Segment profit <sup>-a)</sup>	\$307	(25)%	(75)%	Segment profit	\$50	F
Segment profit % <sup>-a)</sup>	5.3%	(6.8) pts.	(8.8) pts.	Segment profit %	9.2%	8.7 pts.

<u>Transportation</u>			<u>GE Capital</u>		
<u>4Q'17</u>	<u>\$</u>	<u>V%</u>	<u>4Q'17 net income</u>	<u>Reported</u>	<u>Adjusted<sup>-b)</sup></u>
Revenues	\$993	(20)%	Verticals	\$(7,585)	\$122
Segment profit	\$189	(40)%	Other Continuing	1,016	1,045
Segment profit %	19.0%	(6.5) pts.	Capital	\$(6,569)	\$1,167
			Discontinued ops.	182	182
			<b>GE Capital</b>	<b>\$(6,388)</b>	<b>\$1,349</b>



(a- Oil & Gas segment operating profit \$(105)MM including restructuring & other charges

(b- GE Capital adjusted net income excludes the effects of the insurance charge, U.S. tax reform, and EFS impairments (related to goodwill and shortened hold period assumptions)

# Power 2017

(\$ in millions)

## 4Q'17

	<u>4Q'17</u>	<u>V%</u>		<u>4Q'17</u>	<u>V</u>
Orders	\$10,236	(25)%	HDGT orders	24	1
Revenue	\$9,421	(15)%	HDGT shipments	39	4
Segment profit	\$260	(88)%	Aero shipments	3	(28)
Segment OP%	2.8%	(16.7)pts	AGP shipments	25	(37)
			Outage V%	(9)%	

- Orders (25)% driven by lower HDGT scope, AGPs, and aero units ... HDGT segment expected to be (50)% in 4Q
- Revenue (15)% on 28 fewer aero units and 37 fewer AGP upgrades
- Op profit (88)% driven by charges & year-over-year headwinds \$(0.9), lower volume \$(0.6), and execution \$(0.5) ... structural cost (11)%

## 2017

	<u>TY'17</u>	<u>V%</u>		<u>TY'17</u>	<u>V</u>
Orders	\$36,974	(13)%	HDGT orders	75	(9)
Revenue	\$35,990	(2)%	HDGT shipments	102	(2)
Segment profit	\$2,786	(45)%	Aero shipments	40	(55)
Segment OP%	7.7%	(6.1)pts	AGP shipments	80	(65)
			Outage V%	(8)%	

- Markets softer than anticipated ... expect <35 GW in 2017, working restructuring plans to support ~30 GW market in 2018
- HA meeting performance commitments in the field, navigating learning curve issues and factory & supplier ramp up
- Long-term service agreement utilization as expected ... transactional margins ~(40)%
- Structural cost out \$0.8B in 2017 ... \$1B+ in 2018



# Moving forward in Power

## Focus areas

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## 2017 progress & go-forward priorities

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**1** Reduce structure & manufacturing footprint

- ~\$800MM structural cost out in 2017 ... 15 sites reduced, professional headcount down 11%
- Targeting \$1B+ structural cost out in 2018, reviewing additional footprint actions

**2** Improve cash conversion

- Commercial strike zone & SPRINT teams driving working capital & projects ... progress in 4Q
- Execute 2x inventory turns improvement with reduced cycle times & finished goods liquidation

**3** Product & services margin expansion

- Taking action to improve project execution and services delivery model
- Intense focus on project discipline, services fulfillment, Digital growth opportunities

**4** Maximize services \$/IB

- Improved rigor & transparency with better outage visibility, organized by operating discipline
- Convert outage opportunities, align commercial incentives, cash & returns focused

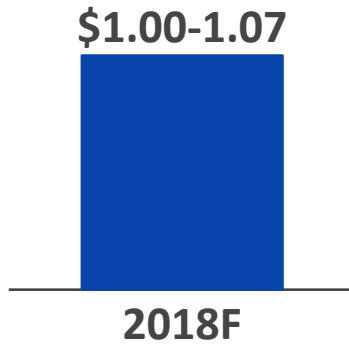
**5** Leadership & culture

- New leaders in place, improving process accountability and operating excellence
- Continue business integration, improve data governance and simplify IT infrastructure



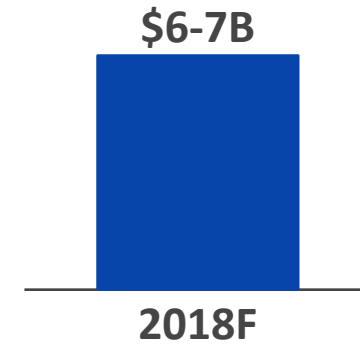
# 2018 financial outlook

## Adjusted EPS<sup>a)</sup>



- GE Capital lower due to insurance-related portfolio actions
- Aviation & Healthcare strength; tough Power markets continue

## Industrial FCF<sup>b)</sup>



- 2017 progress collections stronger than expected
- Executing on working capital & capex

Team focused on execution – cash, cost, capital allocation



(a- Continuing earnings excluding Industrial non-operating pension, gains and restructuring & other

(b- Industrial FCF = Industrial CFOA ex. deal taxes less gross P&E additions & capitalized software; excludes GE Pension Plan funding; BHGE on a distribution basis



