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GE - Q1 2018 General Electric Co Earnings Call

EVENT DATE/TIME: APRIL 20, 2018 / 12:30PM GMT

OVERVIEW:

Co. reported 1Q18 revenues of $28.7b and net EPS of negative $0.14.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the General Electric first-quarter 2018 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 of Investor Communications*

Good morning and welcome to today's webcast. I'm joined by our Chairman and CEO, John Flannery, and our CFO, Jamie Miller. Before we start I would like to remind you that the press release, presentation and supplemental have been available since earlier today on our Investor website at www.GE.com/investor.

Please note that some of the statements we are making 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 will turn the call over to John Flannery.

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

Great, thanks, Matt. In my letter to shareholders I spoke of our path forward. We are taking what we learned in 2017, recommitting to the fundamentals, and dedicating 2018 to earning back your trust and delivering for you.

Today is our first report card for 2018 and we see signs of progress. At a critical time I'm extremely proud of the team's intense effort and execution focus during the first quarter. Adjusted EPS of $0.16 was up 14%. Industrial had a strong quarter delivering $0.18, up 29%, with strong performances in Aviation, in Healthcare, in Renewables, in Transportation and higher cost out in Corporate. This is partly offset by lower Power, Oil & Gas and GE Capital earnings.

Free cash flow was about what we were expecting. It was a $1.7 billion use but, importantly, a $1.1 billion improvement over the first quarter of 2017. We continue to make progress on cash. The team is intensely focused and cash is front and center in every conversation. We see it in our results both in the fourth quarter of last year and in the first quarter.

Power continues to be our biggest challenge. The team is making good progress on execution, but the market is challenging and, as we've said before, this will be a multiyear fix. We are confident we will exceed our 2018 goal of $2 billion plus of structural cost out. We delivered $800 million in the first quarter, which helped increase the industrial margin rate 60 basis points.

We have been working for several years to resolve our WMC-related exposures. As we publicly disclosed, in December 2015, the DOJ started a FIRREA investigation. In the first quarter, we booked a related reserve for $1.5 billion for WMC. Last November we announced our intention to divest $20 billion of assets over the next one to two years. We are making progress on these dispositions. Industrial Solutions will close in the second quarter and Value-Based Care in the early third quarter.

In addition, we are in active discussions on multiple smaller Aviation platforms, Current & Lighting, Distributed Power and Transportation. We've got a lot to execute on but the first quarter was a good start to executing on our 2018 plan.

There is no change to our framework of $1 to $1.07 earnings per share and $6 to $7 billion of free cash flow. We expect earnings pressure in Power will be offset by better Aviation and better Healthcare earnings and lower corporate costs. Renewables, Transportation and Oil & Gas should be about as expected.

And now next on orders. First-quarter orders totaled $27 billion, up 10% reported but flat organically. Equipment orders were down 1% and service orders were up 1% organically. Jamie will give you orders details by business. The decline in equipment orders was driven by Power, which was down 40%.

We saw strength across the rest of the portfolio, particularly in Renewables, Aviation and Transportation. Services orders were strong in Aviation, Healthcare and Transportation but were mostly offset by softness in Power and Renewables.

The majority of our markets are quite strong, our franchises are robust and we see a lot of opportunity for growth. Some market highlights are on the right. With respect to Power, we came into the year expecting the overall market for new gas orders in 2018 to be 30 to 34 gigawatts. Based on what we are seeing in the market, this is trending to less than 30 gigawatts. I will give you more details on Power in a couple of pages.

We see broad strength in Aviation. Global revenue passenger kilometers grew 5.9% year to date with strong growth both domestically and internationally. Air freight volumes grew 7.7%. Load factors posted record highs for February.

In Healthcare we saw strength in emerging markets with HCS orders up 7%, Bioprocess orders were up 7% as well. The US and Europe markets continue to see modest growth. In the first quarter we signed our first cell therapy FlexFactory order with Shanghai Cellular Biopharmaceutical Group. Although this is a small business for us today, cell therapy is an exciting area where we are investing for growth. Orders for cell therapy were up 78% in the first quarter.

Our Renewables onshore business continues to see strong growth but there is price pressure across the industry.

Next I will go through revenue, margins and costs. Industrial segment revenues were $27.4 billion, up 9% reported and down 4% organic. The difference was driven mainly by the impact of the Baker Hughes acquisition. Aviation and Healthcare had a solid quarter, both up 6%. Power, Oil & Gas, Transportation and Renewables all had negative organic revenues and Jamie will take you through the businesses in more detail.

Our Industrial margins were 10.2% in the quarter, up 60 basis points. Organically margins expanded 160 basis points. This is very solid performance given the lower revenues. Aviation margins were 340 basis points up year-over-year on cost out and higher service revenue, offsetting the drag of 186 LEAP shipments in the quarter versus 77 last year. Transportation margins were up 520 basis points driven by lower costs and a higher mix of services.

And reduction in our structural cost is a highlight. At the Industrial level cost out was $800 million. While comps will get tougher throughout the year, we expect to beat our $2 billion plus target for cost out. Power cost out was $350 million and we see upside to the $1 billion Power cost out target.

Now with respect to Power, I thought it would be helpful to give you some context on what we are seeing in the power market and the actions we are taking to drive execution. Our plan for the heavy-duty gas turbine market was built on 30 to 34 gigawatts of demand. We are seeing lower demand today driven by energy efficiency, renewables penetration and some delays in orders.

Our equipment orders were down 24% in the fourth quarter and were down 40% in the first quarter. Given what we are seeing, we believe the 2018 market is trending below 30 gigawatts and we think this is the type of market that we are going to be looking at in general for the next few years. So here is the plan that we are executing on.

First, we continue to have leading technology, deep domain, digital solutions and broad and deep customer relationships. We continue to be viewed as a go to provider in our industry and we are fighting for every opportunity in the market.

On the cost side, in an industry that clearly has excess capacity, we are aggressively moving to right size our footprint and base cost. We took out $800 million of structural cost in 2017 and an additional $350 million in the first quarter. We are on track to exceed our $1 billion target for 2018 and headcount and sites are coming down.

We are maximizing the economics of our installed base. Our installed base is a valuable asset. We have a third of the world's power generation. We have increased our visibility to transactional outages by more than double since last October and that's up to 86%, which should allow us to capture more of this important market.

We are driving out cost and addressing the quality issues we had last year. The team has introduced a new sales force compensation program specifically aimed at driving transactional services and margins. We have a new leadership team in our supply chain and they are reinvigorating the use of lean and Six Sigma to drive better execution.

The H cycle time is down 20%. Ultimately our goal is to cut this another 50% or more. The team has put in controls that are driving more disciplined production plans and better timing of cash in our long-term service contracts. These measures will lead to lower inventory and better cash flow over time. And we are also exiting non-core assets as we simplify the business.

Russell has built out the leadership team. In the fourth quarter we announced new leaders in Services and Supply Chain. In the first quarter, we added Chuck Nugent to run our Gas Power Systems business. He has deep operational background in Aviation and Healthcare. We have made a lot of progress putting the right team in place.

So we are planning for the market to continue to be challenging, but we are taking the right steps to adjust to this market and drive execution. In the final analysis, it's important to step back and look at our total Power portfolio. We have the leading franchise in gas turbines, a strong position in wind, cutting-edge technology, digital expertise, grid and automation capability and a growing presence in storage with our GE Reservoir.

There are short-term pressures but GE is on the field playing out the transformation in this industry. And with that I will now turn it over to Jamie.

Jamie Miller - *General Electric Company - SVP & CFO*

Thanks, John. Before I start with the consolidated results and, consistent with what we laid out in November, we've made adjustments to our reporting metrics starting this quarter.

First, on EPS we now report an adjusted EPS number which has total continuing operations, excluding industrial gains, restructuring and other and non-operating pension and benefit costs. And on cash we have moved to reporting free cash flow as opposed to CFOA. Both of these changes reflect our continuing effort to simplify our financial reporting and bring our metrics more in line with industry peers.

Also as you know, last Friday we filed an 8-K with restated financials for 2016 and 2017 to reflect a number of new accounting standards, the most significant being the new revenue accounting standard known as ASC 606.

I will go through more detail on the transition and financial impacts later in the discussion, but all financial metrics and prior period comparisons in this presentation are now on the new basis. And it's important to note that this does not change anything related to our cash flows and has no impact on our 2018 earnings and free cash flow guidance.

On the consolidated results, first-quarter revenues were $28.7 billion, up 7% reported. Industrial revenues were $26.5 billion, up 9% reported with the Industrial segments also up 9% and organically down 4%. For the quarter, adjusted EPS was $0.16, up from $0.14 in the first quarter of 2017 and I will walk you through the Industrial and Capital components of that.

The Industrial businesses comprise $0.18 of EPS, up 29% versus last year, driven by strength in Aviation, Healthcare and lower Corporate costs. And GE Capital contributed negative $0.02 driven largely by interest on excess debt and costs relating to calling $2 billion of long-term debt during the quarter. The benefits from calling this long-term debt will be accretive within the year.

Next I will move to continuing EPS which was $0.04 for the quarter and includes $0.12 of costs related to restructuring and other, non-operating pension and benefit cost and US tax reform adjustments in GE Capital. Net EPS was negative, $0.14.

As John mentioned, we recorded a $1.5 billion reserve charge to discontinued operations related to the WMC DOJ FIRREA investigation. As we have disclosed in our SEC filings and previously discussed, we have been under investigation since late 2015 by the Department of Justice related to activity in our mortgage subsidiary from 2006 and 2007.

In March we had settlement discussions following the DOJ's assertion that WMC and GE Capital violated FIRREA. We recorded the reserve based on our discussions with the DOJ and a review of settlements by other banks. We do not expect this to change our view on GE Capital with regards to cash and liquidity. The discussions are ongoing and we will update you on this one as we know more.

Free cash flow was negative $1.7 billion for the quarter, in line with our expectations and an improvement of $1.1 billion versus the prior year. And I will walk through more details on our cash performance in the next couple of pages.

Next on taxes, the reported GE tax rate was 15% and the adjusted tax rate was 25%. For the year we still expect an adjusted tax rate in the mid to high teens.

On the right side are the segment results. Industrial segment op profit was up 7% reported and up 4% organically, driven by strong double-digit growth in Aviation, Healthcare and Transportation, partly offset by declines in Power and Oil & Gas. When combined with the lower corporate cost John mentioned earlier, the Industrial op profit is up 15% reported and up 12% organically. I will cover the individual segment dynamics separately.

Next I will cover cash. Our total Industrial free cash flow was negative $2 billion in the quarter. This represents total GE including 100% of Baker Hughes free cash flow. Adjusted for the $300 million of pension plan funding this quarter, our Industrial free cash flow was negative $1.7 billion, up $1.1 billion versus the prior year.

On the right you can see the drivers of our cash flow. Income depreciation and amortization totaled $2 billion. Working capital usage was negative $1.4 billion for the quarter, driven by inventory buildup of $1.1 billion in Renewables and Aviation. This was needed for equipment deliveries in the second half of the year.

Contract assets were a cash usage of $400 million this quarter driven by cum catch adjustments on long-term service agreements of $200 million and revenue in excess of billings for another $200 million. And the other outflow of $900 million includes deferred taxes and timing items related to project cost disbursements.

Finally, we spent $1 billion in CapEx to support our growth in business segments, primarily Aviation, Healthcare and Renewables, and that was slightly above what our run rate will be for the remainder of the year.

On the next page I will discuss the cash balance walk for the quarter focusing on the GE ex-Baker Hughes column. Cash on hand ended at $7.5 billion, down $4.3 billion versus year end. In addition to the free cash flow impact which I had already discussed, our quarterly dividend was an outflow of $1 billion.

Next we received $300 million of proceeds from the Baker Hughes GE share buyback and also reduced our debt by $100 million, which is net of $300 million of incremental debt to fund the pension plan.

Additionally, during the quarter we had investing activity related to our Aviation business, including an incremental share in Arcam for $200 million.

Finally the $900 million change in Other is comprised of the pension contribution and other timing items during the quarter.

There is no change to our 2018 guidance of $6 billion to $7 billion of free cash flow. We expect to end the year with $15 billion in cash, which is driven by the next three quarters of free cash flow, and disposition proceeds while funding the pension and the dividend.

From a liquidity standpoint, in addition to the cash on hand, we have roughly $20 billion of operating lines and an additional $17 billion of backup credit lines. Finally, GE Capital ended the quarter with $22 billion of liquidity.

Overall we are continuing to focus and make progress on our four key financial priorities, which are: strengthening our cash position and delevering; reducing our costs; driving a cash and returns focus; and finally, to simplify and drive more transparency.

Before I cover the segments I will go through a walk of EPS on the items we have discussed with the quarter since we are using new metrics. Starting with our net EPS of negative $0.14, there is a negative $0.18 of discontinued operations which is mostly made up of the WMC charge for $0.17.

Now walking from the continuing operations of $0.04, first we had non-operating benefit cost of $0.06 in the quarter. Additionally, on Industrial restructuring and other items we incurred $0.05 of charges, $0.03 of that was related to GE excluding Oil & Gas and was primarily driven by the cost-reduction actions we are taking at Corporate, Power and Renewables. And we incurred an additional $0.02 related to our Oil & Gas segment which represents our portion of Baker Hughes GE's restructuring, most of which was synergy related.

Finally, in GE Capital we incurred a $0.01 true-up adjustment related to the updates to the US tax reform enactment impact on energy investments.

Next, as you know, we issued an 8-K last Friday regarding the adoption of several new accounting standards. I will walk you through two pages on that. The first page provides an overview of the standards and their application within our segment. The most significant change was driven by the new revenue accounting standard, which resulted in differences in the timing of revenue recognition versus previous accounting guidance.

For GE the main drivers of the timing differences were long-term services agreements and Aviation engine accounting. On LTSAs, or long-term services agreements, changes were made related to the accounting for contract changes and changes in scope and term.

For Aviation engines we previously recorded revenue using levelized margins for a contract. And under the new standard, engine accounting reflects the revenue and cost for each individual engine, the most significant effect of this change is on our new engine launches like LEAP.

Lastly, one additional change from the new 606 standard is the required reporting of remaining performance obligations, or RPO, going forward. RPO represents backlog, excluding any contract or purchase order that can be terminated by a customer without substantial penalty regardless of the probability of cancellation.

Our RPO as of the end of the first quarter was $253 billion compared to backlog of $372 billion. We have included a reconciliation of RPO to backlog in the supplemental information provided today.

There are a few differences between RPO and backlog for us mostly driven by our Aviation business. First, backlog includes engine contracts for which we have received purchase orders that are cancelable. We have included these in our backlog historically as our historical experience has shown no net cancellations as any canceled engines are typically moved by the airframer to other program customers.

Second, our services backlog includes contracts that are cancelable without substantial penalty, primarily time and materials contracts.

And lastly, backlog includes engines contracted under long-term service agreements even if the engines have not yet been put into service. We believe that backlog provides important information to investors and have included the reconciliation I referenced earlier to RPO in the supplemental information.

On the next page you can see the financial impact associated with the accounting updates on the left side. I will cover just the impacts of the revenue change, but you can see the total impact in the far right column inclusive of the other accounting changes. In total, the other changes impacted EPS by $0.01.

For the revenue change, we recorded a cumulative retained earnings adjustment of negative $8.1 billion, which includes the opening retained earnings impact of $4.2 billion plus earnings impacts in 2016 and 2017.

Additionally, we recorded a $1.1 billion charge to retained earnings for the resulting US tax reform impact. The standard reduced 2017 revenue by $2.2 billion and Industrial segment profit by $2.5 billion.

GAAP EPS was revised down $0.30 of which $0.17 related to the new standard and $0.13 related to the tax reform impact. Adjusted EPS post all of the accounting changes was $1 in 2017. As a reminder, our 2018 guidance incorporated the impact of the new revenue accounting standard.

On the right-hand side of the page you can see the 2017 impacts to the segments. I won't go through them individually, but you can see the impacts to both revenue and op profit by business with the most significant changes in Power, Renewables and Aviation.

The adjustments to Power were driven by changes in scope, term and the treatment of contract changes for LTSAs. And in Aviation it was driven by both LTSAs and engine accounting and Renewables was also impacted by the timing of revenue recognition for international Onshore Wind. The new standard accelerated revenue so that it is recognized now on delivery versus before at installation and commissioning.

Now I will take you through the first-quarter results by segment. As John discussed earlier, our current view of the market for Power, based on demand and expected contract closure timing, is trending below 30 gigawatts for 2018. And our first-quarter orders are consistent with that view.

This quarter our Power orders were $5.6 billion, down 29% with equipment down 40% and services down 19%. In equipment, Gas Power Systems orders were down 52%. Excluding Distributed Power reciprocating engines, GPS orders were down 71% on lower gas turbines, aero derivatives and steam units. We received no orders for H units, which was in line with our plan. Steam Power System orders were down 80% as a result of the non-repeat of two large orders in India last year.

Turning to services, our orders were down 19%, but down 12% ex-Water. Our contractual services orders were down 14% principally on lower AGPs and fewer replacement parts needed during outages as a result of the recent upgrade cycle. Utilization of the CSA fleet continues to perform as expected. Transactional orders were down 20% on lower AGPs and outages and in total we received four AGP orders versus 20 for last year.

Revenues in the quarter were $7.2 billion, down 9%. Equipment revenues were down 16% on lower gas turbines, heat recovery steam generators and aero derivative units. Service revenues of $3.7 billion were down 2% and up 8% ex-Water.

Contractual Services revenue was down 18% on lower AGPs and a mix of content and outages this quarter. Transactional Services were up double-digits on higher outages and field service repairs and total AGPs in the quarter were 6 versus 21 last year.

Op profit of $273 million was down 38% principally on lower equipment volume, unfavorable price, lower AGPs and the absence of Water. This was partially offset by structural cost out of $354 million, down 17% and ahead of plan.

As John discussed earlier, we are making progress on taking cost out, repositioning our services business and fixing execution issues. We are aggressively implementing additional actions; however, the pace of the market decline is greater than the near-term benefit of those actions. As a result, we expect business operating performance to be about flat to 2017, lower than we outlined at our November investor meeting.

Next on Aviation the market continues to be strong. Global revenue passenger kilometers grew by 5.9% through February year to date with solid growth in domestic and international markets and air freight volumes also had a strong start to 2018 growing at 7.7% through February. Industry load factors posted a record high in February at 80.4%.

Orders in the quarter of $8.1 billion were up 13%. Equipment orders grew 18% on higher commercial engine orders, up 39%, driven by GEnx and LEAP. Military engine orders were up 87% on large helicopter and F-110 contracts. Services orders grew 10% with commercial services up 5% on a higher spares rate of $25.2 million a day, up 16%. Military service orders grew 17%.

Revenues in the quarter grew 7% to $7.1 billion. Equipment revenue was down 2% on fewer legacy engine shipments partially offset by higher LEAP shipments. We shipped 186 LEAP engines versus 77 a year ago. This is roughly 70 engines behind our original plan for the quarter. Military equipment revenues were up 22%. Services revenues grew 12%.

Operating profit of $1.6 billion was up 26% driven primarily by higher pricing on commercial engines and aftermarket material, as well as product cost productivity, which is partly offset by negative mix from higher LEAP shipments.

Operating margins expanded 340 basis points in the quarter and 80 basis points of that was driven by the lower LEAP shipments. Aviation had a strong start to the year, outperforming in the quarter relative to expectations. This was driven principally by better spares performance, cost execution and favorable engine mix. We expect these trends to continue.

And on LEAP, as I mentioned, Aviation delivered 186 engines with improving cost position. LEAP product performance continues to be excellent. We are making good progress on our commitment to recover on LEAP deliveries by the end of third quarter and are on track to deliver 1,100 to 1,200 engines in 2018.

Moving to the top right on Renewable Energy, orders of $2.4 billion were up 15% over last year. Onshore Wind orders were $2.1 billion, up 16% on higher equipment, which was up 24%, partially offset by services down 21% on timing of US repower orders. Wind turbine unit orders totaled 936 on higher US volume while international orders declined 46%.

Pricing on new units continues to be difficult and was down 13% in the quarter versus last year. Hydro orders of $199 million were down 26% mostly based on the timing of the orders profile. Sales of $1.6 billion were down 7% on lower onshore unit shipments of 352 versus 539 last year. Higher services volume and hydro were up 25% and partially offset the lower shipments.

Operating profit of $77 million was up 10% driven by the acquisition of LM. On an organic basis op profit was down 3% on unfavorable pricing and negative leverage on the lower onshore equipment volume. This was partially offset by better structural and product cost out. The onshore market continues to have pricing headwinds with wind turbines but we are making good progress on cost out.

Product demand for Renewables remains strong with onshore megawatts and unit order growth expected to be up high single-digits to double-digits for the year and the business remains on track.

Now on to Healthcare. Orders of $4.7 billion were up 4% versus last year and up 1% organically. Geographically organic orders were down 1% in the US and 2% in Europe. Emerging market organic orders were up 7%. On a product line basis Healthcare Systems orders were up 4% reported and were flat organically. Life Sciences orders grew 9% reported and 5% on an organic basis.

Healthcare revenues of $4.7 billion grew 9% reported and 6% organically with Healthcare Systems up 6% and Life Sciences up 7%, both on an organic basis. Operating profit of $735 million was up 11% driven by continued volume growth in productivity, partially offset by pricing and higher program investment. Margins expanded 70 basis points organically in the quarter.

Also, as you saw, we announced the disposition of our Value-Based Care solutions division in Healthcare Digital to Veritas for over $1 billion of cash. This is part of the planned $20 billion of Industrial dispositions we have discussed. The transaction is expected to close in the third quarter.

We feel confident in the Healthcare markets going forward; relative softness in the US market in the quarter was driven by timing and tough comparisons. We feel good about the ability of the Healthcare team to outperform for the year.

On the next page I will start with Oil & Gas. Baker Hughes GE released its financial results this morning at 6:45 and Lorenzo and his team will hold their earnings call with investors today at 9:30. Similar to prior quarters I will provide a comparison to the combined business based on financials as if the merger had taken place on 1/1 of 2016. For reference I will give you the total orders and revenue comparisons of our legacy Oil & Gas business.

Orders were $5.2 billion, up 102% reported and up 2% excluding BHI. On a combined business basis orders were up 9%. This was driven by growth in all product segments with equipment up 9% and services up 8%. Market fundamentals are supportive of growth as crude oil prices have remained relatively range bound, providing stability for customers to more effectively evaluate projects. The gas markets continue to grow and LNG demand is strong.

Revenues were $5.4 billion, up 74% reported and down 8% excluding BHI. On a combined business basis revenues were up 1%. Short cycle Oilfield Services and Digital Solutions revenues were up 12% and 4% respectively while the longer cycle Oilfield Equipment and Turbomachinery and Process Solutions were down 7% and 11% respectively.

Operating profit was $181 million, down 30% reported and down about 77% in our legacy Oil & Gas business driven by declines in our longer cycle Oilfield Equipment and Turbomachinery businesses partially offset by synergies.

During the quarter, cash distributions from Baker Hughes GE totaled $440 million including the share repurchases and the quarterly dividend of $127 million. Lorenzo and Brian will provide more details on their call today. The team is executing well with $144 million of integration synergies in the quarter, on track for $700 million for the year.

Next is Transportation. North American carload volume was up 2.4% in the quarter primarily driven by Intermodal carloads up 5.6% and commodity carloads down 0.7%. Parked locomotives showed signs of improvement but remain at historically high levels. Orders of $1.5 billion were up 46%.

Equipment orders were up 34% and we received orders for 342 locomotives compared to 37 in first quarter of 2017. Additionally, we continue to see strong growth in mining with wheel unit orders up 30%. Services orders were up 58% on strong locomotive parts and mods growth.

Revenues of $872 million were down 11% with equipment revenues down 47% on lower locomotive volume. This was partially offset by higher mining revenue up 148%. Services revenues were up 26% driven by aftermarket parts growth and mod shipments. Op profit of $130 million was up 37% driven by services growth and mining wheel shipments more than offsetting the effects of locomotive volume decline.

Overall Transportation delivered a strong quarter. Although carload volumes have improved and we've seen a decrease in the number of parked locomotives, the market for new locomotives is still slow. The mining markets continue to recover with six consecutive quarters of orders growth. The Transportation team is done a great job of balancing operational execution while also making significant progress on positioning the business for disposition.

Moving over to Lighting, revenues for Current & Lighting were down 1% with Current down 7% and the legacy Lighting business up 5%. Operating profit was $1 million, down from $10 million last year.

In the first quarter we announced an agreement to sell our Europe, Middle East, Africa and Turkey and global automotive lighting businesses. These businesses represented approximately $200 million of Current & Lighting's annual revenues of $2 billion. We expect to close substantially all of this deal in the second quarter to sell the remainder of Current & Lighting by the end of 2018.

Finally I will cover GE Capital. Continuing operations generated a loss of $215 million in the quarter, down $168 million from prior year. This decline includes a $45 million loss related to updates to the US tax reform impact on energy investments and a $50 million charge associated with upfront costs from calling approximately $2 billion of excess debt. This ALM action will be accretive within the year.

In addition, the business recorded lower gains and tax benefits that were partially offset by lower corporate and restructuring costs. We expect to have higher income and gains in the second half of the year driven by lower excess debt costs, tax planning benefits and asset sale gains related to our strategic plan we announced last quarter.

Discontinued operations generated a loss of $1.6 billion, primarily driven by the WMC DOJ FIRREA reserve, and $53 million of trailing costs related to the GE Capital exit plan. GE Capital ended the quarter with $146 billion of assets including $22 billion of cash and short-term investments.

We paid down $9 billion of debt during the quarter, which is in line with our overall capital allocation framework. As I mentioned earlier, GE Capital has sufficient liquidity to manage the WMC FIRREA settlement.

We are continuing to execute on our plan to improve the capital position and remain committed to meeting target capital levels by the end of 2019. We continue to explore incremental asset sale opportunities within GE Capital and will monitor and evaluate levels of capital based on the timing of asset sales and the potential WMC settlement. With that, I will turn it back over to John.

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

Okay, thanks, Jamie. There is no change to our 2018 outlook for Industrial EPS or free cash flow. Given pressure in Power we see EPS closer to the lower end of the range. As I said earlier, we expect earnings pressure in Power will be offset by better Aviation and Healthcare earnings and lower Corporate costs. Renewables, Transportation and Oil & Gas should be about as expected.

Cost out was $800 million in the quarter, on track to be better than $2 billion. Cost out in Power in the quarter was $350 million. Corporate was down $176 million and we are executing on synergies in BHGE.

As Jamie mentioned, GE Capital earnings will be breakeven for the total year due to our portfolio actions and we expect the second half of the year to be better than the first half. We are targeting free cash flow of $6 billion to $7 billion. At $1 billion better than last year's first quarter our first quarter is on track and no change to the outlook for the year.

I thought I would wrap with an update on the actions we are taking to run the Company better and an update on the portfolio. We are in the middle of our three-year strategic planning process and we have enhanced our approach this year. Much more detailed analysis on the markets, on our outlook, and a very detailed three-year financial plan for our businesses. We will be reporting out a summary of that to our Board in the second quarter.

We have our shareholder meeting next Wednesday and a Board meeting on Tuesday and we are very excited to have Tom Horton, Leslie Seidman and Larry Culp on board. They have been attending meetings since their announcement and are getting up to speed quickly and are fully engaged.

As I shared with you earlier, we are beginning to see some green shoots in Power on the execution front. I've talked in the past also about our new compensation system which better aligns management with investors, less cash, more stock compensation and two metrics cash and EPS. We rolled out the new plan to the top 4,000 employees in the Company and your management team is aligned and everyone knows the definition of success.

Last year, given the urgency and severity of our challenges, we launched directly and with brute force into cost-cutting mode and improving our cash controls during the second half of the year. You can see the impact of this in the results of our past two quarters.

I always had in my mind that there would be a second phase where it could be more deliberate about a new way to run the Company. In that context I asked a group of our top leaders to spend a week at Crotonville working on developing a new GE operating system. They studied the world's best business system models. We asked six outstanding external leaders in their industries to meet with the team to share their best practices.

I'm excited about the path we are on. We are taking a new approach on how we run the Company. Our business units will be the center of gravity. HQ will be substantially smaller and will focus only on strategy, governance, capital allocation and talent. We will continue to leverage our horizontal capability across the Company.

I will personally lead the development and implementation of a new GE operating system that will be based on lean, Six Sigma and agile. We will drive and measure continuous improvement, operating performance and customer experience. We are also reinstating rigorous talent management and development with a focus both on values and performance to ensure the strong differentiation and organization vitality.

We expect this GE operating system will be applied within the Tier 1 business levels as well. And we are confident this is going to yield incremental cost savings above our current forecasts while creating a simpler, leaner high-performance Company.

As I said in my opening with respect to the portfolio, we are making progress on the $20 billion of dispositions we are targeting for 2018 and 2019. Industrial Solutions is on track to close in the quarter. Cash proceeds will be $1.9 billion. We announced the sale of Value-Based Care last quarter and we expect it to close early third quarter. Cash proceeds there will be $1 billion.

The divestment process on Transportation is progressing and we expect to have more to report in the second quarter.

Earlier this year we laid out a framework to shrink GE Capital assets by $15 billion over the next two years. Assets were down in the quarter by $2 billion including a small portfolio sale.

Finally, and importantly, as I shared with you in January, we continue to review and evolve our thought process regarding the best structure or structures for the Company. Our guiding principle is to ensure that our businesses have the right operating rigor, management alignment and the organic and inorganic flexibility to maximize their potential and their value for our customers, our employees and our investors.

The Board, including our three new directors, is heavily engaged in this process. We have done and are continuing to do a significant amount of work looking at the best way to achieve our objectives in pursuit of our guiding principles. Consistent with what we said earlier this year, we expect to have something more to share with you on that within the next couple of months. And with that, Matt, I will turn it back over to you.

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

Thanks, John. With that, operator, let's open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Julian Mitchell, Barclays.

Julian Mitchell - *Barclays Capital - Analyst*

Hi, good morning. Maybe just a first question around the Power business. Some sense I guess as to how much below your prior plan you think this year will shake out on the profit side. And also I guess related to that, what you are thinking about the cash conversion ratio.

And if I look at the numbers, obviously profits are down a lot in Q1, but at least it was a fairly normal decremental margin, unlike the second half. So does that tell us that a lot of those excess costs you'd booked in the second half, you think you are through that process now with cleanup?

Jamie Miller - *General Electric Company - SVP & CFO*

Good morning, Julian. This is Jamie. Hey, I will take that one and then maybe John can give some color, sort of the broader Power market and what we see operationally. So first with respect to what we see in 2018, and maybe I'll talk about this a little bit versus last year and a little bit versus the prior guide.

As I mentioned earlier on the call, we see 2018 as probably flat to 2017 or flat to prior year. You see the market shifting that we see, so we saw 30 to 35 gigawatts really shifting to maybe less than 30 as we look at the year.

So honestly as you look at, whether it is versus prior guide or versus 2017, this is really mostly a market story. Our prior guide had 60 to 70 gas turbine units. Our new guide would be 50 to 55. And on the aero side we had 30 to 40 before and now 20 to 30. And really the impact is just supply chain overhead, as you don't have those units come through you just see more liquidation impact.

The second piece on cash, Power cash I would tell you for the first quarter was below plan, but that is not unusual for us in that business. First quarter is seasonally low -- a strong second-half unit shipment and unit profile order -- profile for things.

And then from a market perspective, as we talk about the market what you really see there is progress burn not being replaced as quickly by progress coming in from new orders. So, Power for this year continues to look like a real second-half profile story both with respect to the gas power business but really also with respect to how we see the trending in services.

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

And Julian, I would just add just a few sort of macro thoughts about how we are looking at Power right now, and kind of sequentially go through the market, our market share, our cost structure, what we are doing in the service business.

I think, as you have all seen, the market and our market share is lumpy by quarter. But I think we do see enough trends, looking at our pipeline over 12 to 18 months, that we think this is going to trend softer than the 30 to 34 by a bit. And I think the factors are well known. Part of it is Renewables penetration. Part of it also is the pricing of renewables keeps moving and we see utility customers in a bit of a wait-and-see mode to see how that pricing evolves over the next year.

And then with energy efficiency, on the consumer side of things we are seeing more people comfortable with maybe lower surplus reserves and being able to delay some of their CapEx decisions.

So our market share, again, moves around by quarter, but we had about a 50% share last year and that ranged all over the place, about a 40 point swing in various quarters around a mean of 50%. We expect to be in that 45%, 50% basis on a rolling four quarters going forward.

Our commercial teams I would say -- we continue to be very disciplined on our approach to the risk and return of what we are seeing in the market. And that really leads you to a lower revenue outlook and obviously lower cost plan.

So we have announced the 12,000 jobs out, $350 million cost out in the quarter. We'll exceed the $1 billion target for 2018. And we are taking cost out at a much faster rate than the revenues are coming down but there's still an overall pressure there.

And then on service, we see a lot of chance and opportunity here to improve the service business. So our contractual business is relatively stable and more stable. Where we have really been hurt in the last 12 months has been in our transactional business. That's about 40% of the business in services.

And we have taken big leadership changes there and also put in some very specific plans around increasing our visibility and making sure we are close to customers, see outages. That is more than double right now. We have got very specific sales incentive plans around driving revenue in that space and margin in that space. And then a lot of changes we can make on our cash conversion, to your point. So new supply chain leaders managing cycle time, managing our payment terms, billing accuracy, etc. So -- collecting past dues, we collected about $500 million of past dues in the first two weeks of April.

So we think there is a lot of improvement we can make in the business, but it's operating in a tough environment overall. And then the last thing I would say at a Company level is really looking at our energy portfolio in the aggregate. So obviously the gas turbine business has certain pressures based on what's going on in the industry. Those same factors pop up in a different way in our Renewable business, in our grid and grid software business, in the opportunity for storage. I think at a Company level we look at a holistic mix of what we have there.

Operator

Steve Tusa, JPMorgan.

Steve Tusa - *JPMorgan - Analyst*

Hey guys, good morning. When we think about the guidance, so you took down the Power guide, I think you said Healthcare maybe could outperform a little bit. You didn't talk about the Aviation guidance. And just the way I am looking at this is basically the LEAPs will obviously ramp very hard in the second half and the 56s probably start to come down a bit. So your standing guide is $6.2 billion I believe to $6.3 billion on segment profit there. Any update to that number?

Jamie Miller - *General Electric Company - SVP & CFO*

Yes, so on Power, I talked about it being flat to 2017. When you think about the rest of 2018 for the other businesses, we see very solid outlook for Aviation and real strength there. Healthcare is also really looking very solid for 2018 and we see upside there as well.

And then the other piece that's coming through in a really strong way is cost out. And you saw that in the corporate numbers, but we are really seeing that across the board across the businesses in terms of just better cost productivity.

Drilling in on aviation just a little bit, I mean obviously the market feels really good. Demand outpacing capacity, and you see that both in commercial and in military. On the operations side we had less LEAP than we expected, but I will tell you, our spares rate was very favorable in the business. And I think that mix story and the cost management story -- we see that really continuing throughout the year.

Just to touch on LEAP, because I am sure that will be a question at some point, we are about 70 units behind as we hit the end of the first quarter. But as we look to the year we have got a very deep line of sight. The team is really, really focused on it into supply chain and exactly what we need to do, what our suppliers need to do to really move LEAP execution.

And right now we are tracking to be back on track by the end of third quarter and be in line for that 1,100 to 1,200 unit shipment story. So really I think on the Aviation side it feels very solid.

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

Steve, I would just add on the cost side of things, Jamie gave you a good sense as to how strong the outlook is for the business segments in Aviation and Healthcare. But on the cost side of things we just continue to see a lot of opportunity there.

So you are starting to see that in our numbers. Russell and the team working it very hard in the Power business; Lorenzo and the team getting the synergies that we need in BHGE. And we still see big opportunities in really the overhead structures of the Company overall.

And as I mentioned in earlier remarks about the operating system and really a philosophical sort of shift to pushing the management structures into the businesses, we think there is still more opportunity on cost as we go forward here.

Operator

Jeffrey Sprague, Vertical Research.

Jeffrey Sprague - *Vertical Research Partners - Analyst*

Thank you, good morning, everyone. I was wondering if I could ask a couple questions on the balance sheet actually, just trying to sort a couple things out. The receivable from Capital to the parent declined about $4 billion in the quarter. If you could give us any color on what was going on there.

And also I see goodwill and intangibles went up in Industrial about $1.5 billion sequentially. Maybe coincidently, but that kind of seems to erase the $1.5 billion equity hit at capital on the reserve. Maybe just a little color on what's going on in those two pieces.

Jamie Miller - *General Electric Company - SVP & CFO*

Yes, the goodwill piece of it was really FX. And so, there really weren't any other changes. There were a few minor purchase price adjustments, but the goodwill shift was largely just the FX mark on the balance sheet. And in terms of the receivables from GE Capital, that's really just net maturities of debt.

Operator

Steven Winoker, UBS.

Steven Winoker - *UBS - Analyst*

Thanks and good morning, all. Just a couple of questions here. First, if I could, on the GE Capital kind of cash walk, cash availability given the $22 billion that you are starting with now. And maybe talk through how you're thinking about, Jamie, that in terms of asset sales offsetting debt maturities and insurance contributions, kind of what you have left.

And then secondly, John, I assume it's no accident that you are talking about the GE operating system here and you've got Larry joining your Board soon. And there's a lot on that external best practice front to sort of think about in terms of opportunity. Have you sized that opportunity at all and paced it? And is that also what should give us confidence around hitting the EPS walk this year? And sorry about all the questions but I know I might get cut off after this.

Jamie Miller - *General Electric Company - SVP & CFO*

Good morning. So I will take the GE Capital question here on just how we see liquidity and the asset sales there. So, GE Capital ended the quarter with $22 billion of cash and short-term investments. And we expect to maintain about $15 billion to $20 billion of liquidity through 2018 and 2019 in GE Capital.

The asset sales that we talked about in January are well underway. We are seeing a really strong interest in the assets and we have got engagement with multiple parties right now. In March we sold the first tranche of our tax equity portfolio and I think it was a really good template to use for future asset sales.

But we see those coming in nicely throughout the balance of 2018 and our outlook right now is that our liquidity profile at Capital should nicely match how we see the needs there in terms of debt maturities and the other flows. John, do you want to talk about the other?

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

Yes, let me pick up on that. And Steve, I would just say a few things for context. This idea in general is really something that I've been experiencing and thinking about frankly for years. If you look back in the last three roles that I really had in the Company going back to -- going to India in 2009.

I had a sense in that role of frankly how difficult it could be to try to get things done far away from the center of the Company, if you will, and how much concentration there was of decision-making in the center of the Company. Then went to the BD role and had a sense of how we are allocating capital around the Company and between the units. And then in the Healthcare business another perspective of running a business unit.

So those three things really formed a thought in my mind that we needed to decentralize the basic management of the Company and push the responsibility out to the regions, out to the businesses. So I would say that's just sort of background on the evolution of the thinking, if you will.

And then the Crotonville exercise was quite interesting. We had half a dozen people come in, many of whom were ex-GE executives that had gone on to other companies. And we went through what are the things you kept, what made sense, what was helpful. So, that was added to the thinking that we already brought to the table and there clearly are companies that have done this well including Danaher.

So, I wouldn't size this number right now, but I would just say we think it could be meaningful on the cost front at the GE corporate level. We think it could be meaningful in the businesses as well. And then I think the main benefit of this overall over time though is better accountability and really pushing the onus of execution and that sense of ownership down into the business units.

Operator

Scott Davis, Melius Research.

Scott Davis - *Melius Research - Analyst*

Hi, good morning, guys. I'm trying to get a sense of just in the Power business explicitly, and really two small questions here. But one is what is the cost of quality going to -- what did it hit you this quarter, what do you think it will hit you this year? And is the $2 billion still the right number?

I mean, that $2 billion cost out was based on probably a higher market forecast, certainly a higher market forecast and maybe even a higher longer-term market forecast maybe as you guys have dug in a little bit deeper here. I will stop with that.

Jamie Miller - *General Electric Company - SVP & CFO*

Yes, Scott, on the operational side, we are really making progress on that. We still have work to do there, but what I would tell you is that the numbers of issues we are seeing and the size of the issues we are seeing continues to go down.

When you look at the real comparison to last year, or even the comparison to our previous guide, some of that is market like I talked about and some of that is a reduction in some of the operational issues we are seeing. But remember, we have got a really strong base cost out profile here.

And the actions John talked about are really being layered in beginning in the second half of last year and really throughout this year. And we see that is really pulling through and offsetting some of that incremental noise that we expect.

The other piece -- and I mentioned this earlier but I will just say it again -- that I think is important to think about is that Scott Strazik came in to really run the Power Services business. There have been a number of actions Scott and the team have taken both around how they are organized, how they are running the business between the contractual piece and the transactional piece.

And then how they are putting in different changes around pricing, around sales incentive programs and other things that, honestly, that ramps as you go through the year too. And services and Power will tend to be I think a second half piece.

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

Scott, I would add one of the thing. Jamie hit the nail on the head on the costs; we just continue to work that item and Russell and the team are working that very hard. I would just underscore the team is battling extremely hard. I am watching this day in, day out. This is the top priority of our team here. And I'd just say the Power team in a tough environment is digging in hard and really giving it every effort.

We have made a lot of changes to the team, so not only in terms of the most senior leadership there but down a level -- Jamie mentioned Scott. We have a new services CFO, Chuck Nugent, who as I mentioned came over to the Gas Power Systems CEO. The commercial leader has changed, supply chain leader has changed.

So in many ways watching this, it reminds me of the first year I had in Healthcare where just -- you changed the team, the team coalesces around the focus on cost and improving the business. And it takes time, obviously it took us time to get into this dynamic and it will take us some time to work out it. But I'd, again, applaud the team's efforts on this.

Operator

Andrew Obin, Bank of America.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Yes, good morning. A couple of questions. So, transactional progression, because it seems profit wise that's a big swing for Power profitability. I guess you indicated it was up double-digits. Can you just sort of talk about what initiatives you are doing inside the transactional business in Power to drive this growth? And what can it be by year-end, how much visibility you have? And second just more geographic color (multiple speakers)?

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

We don't give a very detailed [focus] of that business by numbers, but let me tell you a higher level. As we said, there's really two key factors here. One is visibility into outages in the non-contracted installed base. And then second obviously is the ability to penetrate, capture and get the right margins in that business.

We had an issue with visibility into the installed base. So when Scott got into that business last fall we were seeing that we had visibility around 40%. So we just were missing a significant amount of the opportunities there. And they have gone through an exhaustive method to catalog the installed base and make sure we have got good visibility there. That is trending up close to 90%.

So step one obviously is to know better what is going on in the market. And then the rest is shoe leather and sales coverage and making sure the teams have good value propositions, understand what to say in front of the customers, the right incentives. And we have, as I said earlier, specific sales incentives around this area of business and particularly the margin rate in this area of the business.

So this is a blocking and tackling exercise on visibility and sales execution and we think it will yield results -- good results.

Operator

Andrew Kaplowitz, Citi.

Andrew Kaplowitz - *Citigroup - Analyst*

Hey, good morning, guys. John, can you talk about your line of sight into the $5 billion to $10 billion in Industrial asset sales that you mentioned, and whether you think you will get the valuations that you want on these deals?

And then stepping back from there, obviously there has been quite a bit of talk about bigger changes at GE, whether it's a bigger breakup or spins. Maybe can you give us any color as to what you are thinking at this point on the structure of the Company?

Jamie Miller - *General Electric Company - SVP & CFO*

Yes, so Andy, maybe I will take the first piece of that and then throw it over to John for the portfolio piece. So on the dispositions -- and John mentioned a number of these things early in the call, but Industrial Solutions, we see that closing in second quarter, $1.9 billion of cash.

You probably saw the announcement a couple of weeks ago on Value-Based Care. That's another $1 billion probably third-quarter close if not second quarter. And then as we really start to move down the list with Distributed Power, a couple of Aviation platforms and Transportation we are seeing strong interest across the board.

Multiples will vary by the deals just because the industries are in different cycles, but we see line of sight to these planes landing as we start to get into the second half.

The other piece, and I know people have asked this before, so maybe I will just throw it out, is we look at free cash flow going into 2019. If you assume all these close at the end of 2018, these represent about $1.2 billion of free cash flow ex-Industrial Solutions. That's another data point on that one.

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

And then, Andrew, just go back to maybe the principles that we went through before. So first and foremost, strong franchises concentrating, as we said, in Power, Aviation and Healthcare. Step one is to make sure we are running those businesses the best way we can and get the best results out of those businesses.

I think we are seeing progress on that result, so that we step into any thinking about the portfolio really on our front foot with the businesses performing well, I think that is where we are. But ultimately we have to think through and I have to think through what is the environment and conditions that will help these businesses flourish not just in 2018 but five years ahead, 10 years ahead, 20 years ahead.

And in that regard basically we disclosed earlier and discussed earlier looking at all options. Ultimately it's a question of what's the right structure for resources, for organic and inorganic strategic flexibility, for the right level of management execution, for the right level of cost structure and things in the Company overall that we reference. And getting the right outcome for customers, for the employees and for the investors.

So, there is no sacred cows. We are reviewing a number of structures. We are working through this right now in great detail with the Board, including our new Board members, we are being deeply thoughtful about this, purposeful about this. And we will give you an update in the next couple of months, as we said earlier. So, there's a lot of work and engagement.

The last thing I would say just, importantly, there are factors to consider. We see them as solvable and manageable, but I want to reiterate we are making no changes to the 2018 capital allocation framework, no change to our financial policies. We will honor all the commitments we have with employees and retirees and bondholders as we consider any options that we would look at.

Operator

Robert McCarthy, Stifel.

Robert McCarthy - *Stifel Nicolaus - Analyst*

Good morning, everyone. All right, I will keep it quick. In terms of the enumerated assets subject to divestiture, the $20 billion, can you give us an update of what you think the cash conversion, the Industrial free cash flow conversion on those businesses are?

And the spirit of the question is what are we playing for here? Because you have got trendline CFOA of probably $11 billion to $13 billion. And from that standpoint with $3 billion of CapEx, what can we be playing for for Industrial free cash flow per share in a bull case in 2019?

Jamie Miller - *General Electric Company - SVP & CFO*

So first, we don't give out 2019 guidance at this point. But I would say a couple of things. So, I mentioned before that these businesses that are in the disposition path represent about $1.2 billion of free cash flow for 2019, assuming they all sort of left at the end of the year and that's ex-Industrial Solutions.

As you get into 2019 there is a couple of other things to remember, most importantly that we've got a very heavy load of restructuring cash out this year that really drops as we go into 2019. And so, that offsets a lot, if not more, of the free cash flow exits that we have going.

And then as we get into 2019 -- as we get into later in the year we will lay out the earnings profile for the businesses. So hopefully that helps at least a little bit at the high-level.

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

One thing I would just add to that just to clarify, the $1.2 billion is the free cash flow of that grouping of assets. $5 billion to $10 billion is the cash -- range of cash proceeds we see; the actual enterprise value and how those deals are structured would be quite higher than that. So you should not take one and divide by the other for [multiple] of them. Interest level on these assets is good and the multiples are attractive.

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

All right, great. We'd like to thank everyone for joining today. Just as a reminder, the replay of today's call will be available this afternoon on our Investor website. Next Wednesday we will be holding our annual shareholders meeting in Imperial, Pennsylvania; and, John, you will be at EPG on Wednesday, May 23.

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

That's right. Matt, I'd just like to finish and just say, again, thanks to the GE team. It was a great performance in the quarter by the team, great effort, great focus. And one of the joys of my job is being able to watch you perform around the world. I had a chance to do that in the first quarter.

But a reminder to the team and also to everyone else, it's a step forward in the 2018 plan, but we need to continue to execute, keep the focus there. And the only thing that matters at the end of the day really is delivering the full-year results for 2018 and that's what we will be focused on. So thanks and we will see you at EPG.

Operator

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