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# EDITED TRANSCRIPT

GE - Q1 2017 General Electric Co Earnings Call

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**OVERVIEW:**

Co. reported 1Q17 revenues of $27.7b.

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## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to the General Electric First Quarter 2017 Earnings Conference Call. (Operator Instructions) My name is Ellen, and I will be your conference coordinator today. (Operator Instructions).

As a reminder, this conference is being recorded. I would now like to turn the program over to your host for today's conference, Matt Cribbins, Vice President of Investor Communications. Please proceed.

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**Matthew G. Cribbins** - *General Electric Company - VP of Investor Communications*

Thank you. Good morning, everyone, and welcome to GE's First Quarter 2017 Earnings Call. Presenting first today is our Chairman and CEO, Jeff Immelt; followed by our CFO, Jeff Bornstein.

Before we start, I would like to remind you that our earnings release, presentation and supplementals 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 with that, I will turn it over to Jeff Immelt.

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**Jeffrey R. Immelt** - *General Electric Company - Executive Chairman and CEO*

Thanks, Matt. GE had a good quarter in a slow growth in a volatile environment. While the resource sector is challenging, we had the strongest Oil & Gas orders in 10 quarters. We saw global growth accelerating, while the U.S. continues to improve. Since the beginning of 2017, I visited China, Africa, Latin America and Southeast Asia. All are stronger than last year. With orders growth of 10%, we've seen an attractive environment for GE overall.

EPS was $0.21 for the quarter. Excluding the impact of uncovered restructuring, industrial EPS was up 15% and verticals grew by 20%. Organic revenue was up 7%, our strongest quarter in more than 2 years. Segment operating profit grew by 15% organically, and total industrial profit was up 20%. Margins are expanding, and our cost-out programs are accelerating. Our cash performance was worse than we expected to start the year with CFOA of $400 million and negative industrial CFOA. We had several one-timers and grew working capital on the first quarter, which we expect to turn around in the second quarter and be on plan for the year.

We executed on our portfolio goals. The water sale exceeded our expectations and should produce a $2 billion gain and $2 billion of cash.

GE Capital has exited PRA supervision, completing its pivot. This is an incredible accomplishment for the team. Two years after we announced our GE Capital strategy, our actions are largely complete. And Baker Hughes is on track for a midyear close.

We're off to a strong start and are reconfirming our framework for the year. We're exceeding our goals for organic growth in margins. We expect to hit our goal for $1 billion of structural cost-out. And our plan is to be on track for cash and capital allocation for the year.

Orders were very strong in the quarter, up 10%, which was 7% organically. Backlog grew by $3 billion. Equipment had a great quarter with growth of 11%. Services were strong as well with growth of 8%. Pricing was about flat. Orders growth was broad-based. We saw expansion in 6 of 7 segments in 9 of 12 regions.

Let me give you a few order highlights that were particularly significant. Power equipment was up 25%. Growth markets were up 27%. Aviation spares grew by 25%. Healthcare equipment was up 10%. Life Sciences grew by 15%. Renewable service doubled. LED orders grew by 42%. We were encouraged that Oil & Gas orders grew by 9%. Global orders grew by 20% behind some very specific initiatives. Orders grew by double digits in 6 of 7 businesses. Highlights include: a big Kazakhstan rail deal; Aviation LEAP orders of $250 million; Power wins in India worth $370 million. Global onshore wind deals worth $270 million. Healthcare in China grew by 28%, and mining grew by 16%. Digital orders grew by 7%, including 70% growth in ServiceMax, 60% in Power, 55% in Renewables and 41% in Oil & Gas. We continue to reposition our legacy IT businesses for growth in the future. We signed global deals at NEC, Bridgestone, South32 and Deutsche Bank. We established an alliance with China Telecom to bring Predix to China. We expect strong orders to accelerate through the year. So this start reinforces our organic growth goal of 3% to 5% for 2017.

Organic revenue growth of 7% was ahead of expectations. Revenue strength was broad-based with 6 of 7 segments having positive organic growth. The old power businesses, what you see as Power and Renewables, was exceptionally strong with both growing 18%. And Aviation grew by 8%.

Our growth initiatives are paying off. Globalization is a major driver with growth market revenue expanding by 10%, where India was up 27%, Middle East up 12% and Africa up 77%. Services growth was up 8%, and 6 of 7 businesses expanded in the quarter. This was led by Aviation, up 18%, and repowering drove 84% growth in Renewables.

New products also added to growth. We finished the quarter with 30 H turbines in backlog and 12,200 LEAP engine orders and commitments. Healthcare imaging orders in U.S. grew by 13% behind excellent new products.

Digital revenue grew by 16%, led by Power, Oil and Gas and Renewables. The additional growth outside verticals doubled in the quarter. GE Store continues to work GE Capital's supported $2.2 billion of industrial orders and GE2GE orders grew substantially.

Margins were also a good story. Industrial operating profit margins grew by 130 basis points with gross margins expanding by 90 basis points. Segment margins grew by 110 basis points. Efficiency was driven by a value gap, productivity and Digital Thread. This more than offset headwinds in mix. Corporate cost are ahead of plan, and we saw margin growth in both equipment and services.

We're on track to reduce structural cost by $1 billion for the year. In the quarter, costs were down $76 million and $200 million lower than our original $500 million cost-out plan. We expect this to accelerate during the year. We invested $1 billion restructuring in the quarter. And for the year, we expect gains in restructuring to offset. We remain committed for $1 billion of cost out in '17 and $1 billion of cost out into '18.

On cash, we have CFOA of $400 million. This included a dividend from GE Capital of $2 billion. Industrial CFOA was a negative $1.6 billion. There's no change to our 2017 framework of total CFOA of $18 billion to $21 billion and industrial CFOA of $12 billion to $14 billion.

We built working capital in the quarter to support growth, and we're adjusting to a different profile with Alstom. And we're impacted by several one-timers. Cash is lumpy, and we expect to have a strong second quarter. I've asked Jeff to give you a little bit more context on cash flow in the next page.

We received an additional $2 billion dividend from GE Capital in April, bringing the year-to-date total to $4 billion against the plan of $6 billion to $7 billion for the year, so a good start. Cash ended the quarter at $7.9 billion. We paid $2.1 billion of dividends and had $2.3 billion of buyback for a total of $4.4 billion return to shareholders.

And with that, I'll turn it over to Jeff to give you more details on cash and operations.

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**Jeffrey S. Bornstein** - *General Electric Company - CFO and SVP*

Thanks, Jeff. As Jeff said, we had a strong quarter on orders, revenues and margins. However, our industrial CFOA was at $1.6 billion usage of cash, about $1 billion below our expectations. We expect to see most of this come back over the remainder of the year, and we see no change for our outlook for the year of $12 billion to $14 billion of industrial CFOA.

Walking the left side of the page. Industrial net income plus depreciation in the quarter was $1.5 billion. Working capital was a use of $1.3 billion. This was about $700 million higher usage than our expectation. The miss was mainly driven by Power and Renewables, partially offset by better performance in our Healthcare business. Receivables was a benefit of $200 million, about $400 million less than our plan. Operationally, we've seen improvement in collections. However, we didn't collect on a number of accounts in the quarter that we expected to. In Aviation, which historically has not had issues with past dues, we missed by about $200 million on 5 customer accounts, which will clear in the second quarter with no issue. In Power, we didn't collect on several delinquent accounts in tough regions around the world, but we expect to collect these throughout the rest of the year, including in the second quarter.

Inventory was a use of $800 million, about $100 million worse than we expected. Most of the businesses were right on the plan. The miss was driven by softness in the U.S. Healthcare market, particularly around ultrasound and LCS. But we expect to work off this inventory over the remainder of the year.

Payables were a use of $400 million, roughly as we expected. This was driven by payments of fourth quarter purchases that were significantly higher than the new volume added in the first quarter. And we see this dynamic mostly every year in the first quarter. Progress collections was a use of $300 million. This is primarily driven by 2 things. First, it was the impact of Renewables from shipping equipment in the first quarter following the buildup of progress collections from safe harbor wind turbines in fourth quarter. Secondly, we had several large orders in the quarter that did not reach financial closure. This includes large orders in Energy Connections in Iraq, a power deal in Algeria and a big Transportation transaction in Angola. We expect these deals to close in the second and third quarter.

Contract assets were a use of $1.9 billion. This was $300 million worse than expected. Of the $1.9 billion, $500 million was from our long-term equipment contracts, where the timing of our $1 billion revenue recognition milestones differ. This will catch up throughout the year as we execute against the contract. The remaining $1.4 billion is our long-term service agreements. There were 2 pieces to this. $600 million is related to service contracts where we've incurred cost and booked the revenue, but haven't yet billed the customer. We expect this to partly come back over the year as we see higher asset utilization in Power and Aviation. And we've seen these similar trends in the prior years. The other $800 million are contract adjustments driven by better cost performance and part life, primarily driven by Power and Aviation. Versus expectations, the $300 million of lower cash on contract assets is driven by $200 million of long-term equipment contracts that we expect to come back throughout the year, and the $100 million is from services contract adjustments I just walked through, which will come back over the remaining life of those contracts as we build the utilization. In total, we're about $1 billion off our first quarter plan, but we'll recover the vast majority over the second to the fourth quarter.

In the first half of 2016, we delivered $400 million of CFOA. For 2017, we expect significantly stronger cash performance in the second quarter with sequential improvement throughout the year. Our total year plan is $12 billion to $14 billion. That's driven by an increase in net income plus depreciation. And we expect to see a benefit from working capital similar to last year's benefit. Contract assets will be similar impact as 2016. And other cash flows will be lower cash usage this year, largely driven by the absence of onetime LTIP payment in 2016. So with that, I'll move on to consolidated results.

Revenues were $27.7 billion, down 1% in the quarter. Industrial revenues were flat at $25 billion. As you can see on the right side of the page, the industrial segments were up 1% on a reported basis. Organically, industrial segment revenue was up 7%, affected by the Appliance disposition. Industrial operating plus vertical EPS was $0.21, flat with prior year. Excluding gains in restructuring, which was a $0.03 headwind versus the first quarter of last year, industrial operating verticals EPS was up 12%. Operating EPS was $0.14 in the quarter, up from $0.06 in the first quarter of last year. This incorporates other continuing GE Capital activity, including excess debt headquarter runoff costs that I'll cover separately on the Capital page. Continuing EPS of $0.10 includes the impact of nonoperating pension. And net EPS of $0.07 includes discontinued operations. The total disc ops impact was a negative $0.03 in the quarter, driven by GE Capital exits that we executed in the quarter. The GE tax rate was 15%, in line with our total year mid-teens guidance. The GE Capital tax rate was favorable, reflecting a tax benefit on a pretax continuing loss.

On the right side of the segment results, as I mentioned, Industrial segment revenues were up 1% on a reported basis and up 7% organically. 6 of the 7 businesses were positive organically with Power and Renewables up double digits. Industrial segment op profit was up 9%. And Industrial up profit, which includes corporate operating cost, was up 11%. On the bottom of the page, as I mentioned earlier, industrial operating income plus vertical EPS was $0.21, up 12%, excluding gains and restructuring with industrial operating EPS up 15% on the same basis. Included in the $0.21 was $0.08 of uncovered restructuring that I'll go through on the next page.

So next on Industrial and other items in the quarter. As I said, we had $0.08 of charges related to industrial restructuring and other items that were taken at corporate. Charges were $1 billion on a pretax basis with more than $300 million of Alstom synergy investments primarily related to Power in Europe. We also made significant investments in Corporate, Oil & Gas, Energy Connections & Lighting and Healthcare on the quarter. Restructuring charges totaled about $800 million, and BD charges were approximately $200 million related to Baker Hughes, the water disposition, the Industrial Solutions disposition and the Digital acquisitions. There were no gains in the quarter.

For the year, we expect about $0.25 of restructuring to offset by $0.25 of gains from water and Industrial Solutions dispositions. We are targeting a third quarter close for the water transaction and a fourth quarter close for the Industrial Solutions transaction. For the second quarter, we expect to do about $0.07 of restructuring with no offsetting gains.

Next, I'll cover the segments. I'll start with the Power businesses. Power orders of $6.1 billion were up 8%, with equipment higher by 25% and services flat. Equipment growth of 25% was driven by Gas Power Systems up 12% and steam power systems up almost 100%. Gas Power Systems was driven by higher arrow, up 20 units, and 10 more HRSGs versus last year. Gas turbine orders were down 13 units, 12 versus 25. We had orders for 2 H units, including our first H in China. We have 30 H units in backlog and expect to ship 23 Hs in 2017.

Steam Power systems recorded orders totaling $591 million, up almost 100%, primarily driven by 2 projects for which the business will provide coal-fired turbine islands. These orders were taken by an existing JV within Alstom, which we took majority control of in the quarter.

Service orders were flat. Total orders for upgrades were up 34%, but the AGPs were down 5 units, 20 versus 25 a year ago. Offsetting upgrade growth was lower transactional services in Europe and the Middle East and lower new unit installation volume.

Revenues of $6.1 billion were higher by 17%, with equipment revenue growing 59% and services revenue flat. Equipment revenue growth was driven by higher deliveries of gas turbines, HRSGs and Aero units. We shipped 20 gas turbines versus 13 a year ago. In addition, we shipped 24 HRSGs versus 1 and 11 Aero units versus 5 compared with last year. H shipments were essentially flat at 4 units.

Service revenues were flat despite strong upgrade regrowth, up 26%, including lower AGPs of 21 versus 27. Upgrade growth was offset by lower boiler service volume in North America and fewer major outages in the Middle East, Africa and Europe.





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Power earned just under $800 million operating profit, up 39%. Performance was principally driven by cost productivity and equipment volume, offset partly by mix of equipment versus service. Gas Power Systems and Steam-Powered Systems drove most of the improvement in profitability.

Power had a good quarter, driving both equipment orders and equipment profitability. The business is intensely focused on structural cost and delivering $500 million of cost out for the year. Power had a very strong organic growth quarter on higher Aero turbines and higher gas turbine shipments, driving organic growth up 18%. Our view for the year of mid-single-digit organic growth has not changed. Power is on track for 100 to 105 gas turbines in 2017 and expect to deliver the upgrade growth, including 155 to 165 AGPs. No change to the outlook that the business provided in the March Investor Meeting.

On Renewables, the business had a solid quarter. Orders of $2.1 billion grew 8%, with onshore wind higher by 4% and hydro orders up 39%. Onshore wind orders were up on $167 million of repower commitments versus none last year. The strength in repower was partially offset by lower wind turbine orders, down 8%. We took orders for 589 units versus 716 units last year, down 18%, but the megawatts for the units order grew by 3%. The lower unit count was driven by the U.S., which down 61% after a very strong fourth quarter, partially offset by a very strong international growth, up almost double. The wind market is very competitive with pressure on price, both in U.S. and globally.

Hydro secured a few large equipment orders in Turkey and Nigeria for 8 Francis turbines. Backlog grew 8% year-over-year to $13.4 billion. Renewables revenue of $2 billion grew 22%, driven by onshore wind up 11% and hydro up 2x. Onshore wind growth was largely driven by repowering deliveries. Wind turbine shipments were down 15%, 567 turbines versus 668 a year ago. However, the megawatts that we shipped were essentially flat on the larger turbines.

Operating profit grew 29% in the quarter, driven by cost-out actions on the 2-megawatt NPI, positive value gap and repowering for volume, partially offset by higher NPI spend on the new 3-megawatt turbine. Margins expanded 20 basis points in the quarter. The business made good progress on the 2.x megawatt NPI unit cost, but will require additional cost actions given the competitiveness in the market. We are early in the learning curve and on the cost-out processes on the 3-megawatt NPI.

We closed the LM acquisition this week, and the vertical integration will enhance the business ability to drive cost performance and growth.

In Aviation, before I discuss the first quarter results for the business, I want to make you aware of a change we've made to how we report our Aviation spares rate. Historically, we provided an all-in spares rate that included external shipments of spares, spares using time and material shop visits and spares consumed in shop visits for our engines under long-term service agreements. Going forward, our spares rate will only include externally shipped spares and spares used in time and material shop visits. Over the past several years, the strong growth in our long-term services agreements and the associated shop visits has driven the percentage of spares used in LTSA to be a much greater proportion of the historical order and sales rate. These spares are also part of the LTSA billing and are already accounted for in revenues. We believe the new spares rate provides investors with more visibility to transactional market dynamics. Consumption of spares in long-term service agreements can be impacted by customer fleet management, optimization shop visits over the life of the contract over various other reasons. Starting with the first quarter of '17, we will report only a ship rate for spares on this new basis as the orders and shipments are virtually the same. This change does not impact any reported financial information. Historical information for spares rate on the new basis, as well as the old method, are included in the supplemental presentation material.

Moving to Aviation's first quarter performance. The business continues to execute well in a strong market. Global revenue passenger kilometers grew 7% year-to-date February, with strength in both domestic and international routes. Air freight volumes increased 7.2% until February. Orders in the quarter were $7.4 billion with equipment up 5%. Commercial engine orders were up 3% on higher LEAP and GEnx, partially offset by lower GE90 and CF6 orders. $1.7 billion of new commercial engine orders included $932 million for LEAP, $206 million for CF34, $138 million for GE90 and $166 million of GEnx orders. CFM orders were also up 13% to $186 million.

Military equipment orders of $169 million were down 46%, driven by no repeat of a large Black Hawk T700 army order from last year. Service orders grew 17%. Commercial service orders were higher by 18% with CSA growth of 20% and the spares ADOR of $21.7 million a day was up 25% on the new basis. Military service orders were up 40% at $610 million on increased spare parts.

Backlog finished the quarter at $158 billion, up 3%. The equipment backlog of $33 billion, down 5%, and service backlog of $125 billion ended up 5%.

Revenues grew 9% in the quarter to $6.8 billion. Equipment revenues were down 2%, driven by military down 47% on lower shipments, partially offset by commercial growth of 12%. Commercial engine deliveries were down 7%. However, revenue was up driven by increased mix to higher-value GEnx and LEAP engines. Service revenues were up 17%, driven by commercial spares rate of $21.7 million a day, up 25%. Again, the same as the order rate. Op profit in the quarter totaled $1.7 billion, up 10%, primarily driven by favorable price, volume and cost productivity, partly offset by a negative impact of 81 LEAP shipments versus 0 last year.

Margins expanded 50 basis points in the quarter. Demand for the LEAP engine continues to be strong with over $900 million of orders booked in the quarter. The reliability and performance to spec of the 41 aircraft flying with LEAP today has been excellent. The business is generating strong productivity to offset the negative mix impact of LEAP and is on track to report 2017 margin rates about flat with last year on continuing cost improvements. We will continue to ramp production to an expected 450 to 500 LEAP shipments for the year.

The Oil & Gas environment has been improving led by increased activity in the North American onshore market. Rig count was up 70% versus prior year and up 25% from the fourth quarter of last year and has increased sequentially each of the last 3 quarters. External forecast continue to be slightly more positive on 2017 upstream spending, particularly among independents. The timing of recovery will vary by segment, and a large degree of uncertainty remains. Crude inventory remained at 5-year highs, and markets are closely watching OPEC output compliance. Offshore activity remains weak.

Before I get into the dynamics of the quarter, just one item regarding Oil & Gas subsegment reporting. We combined the turbomachinery and downstream technology businesses, so I'll talk to the performance of those businesses on a combined basis. Orders for Oil & Gas of $2.6 billion were higher by 7% with equipment orders growing 30%. Every segment saw higher equipment orders. Turbomachinery and downstream grew 33%, surface up 10% and subsea up 52%. The equipment orders performance is a positive sign, but growth is off a very low base.

Service orders were down 2%, but flat organically. Turbomachinery and Downstream was down 2%, Digital Solutions was down 3%, Surface down 8% and Subsea down 18%. Backlog ended the quarter at $20.4 billion, down 10% versus last year. Equipment backlog was down 32%, but service backlog actually grew 4%.

Revenues in the quarter of $3 billion were down 9%. Equipment revenues were down 20% driven by Subsea, down 29%, Turbomachinery and Downstream down 19% and Surface down 2%. Service revenues were flat with Turbomachinery and Downstream up 13% and Digital Solutions up 1%, offset by Subsea down 36% and surface down 14%.

Operating profit of $207 million was lower by 33%, primarily driven by lower price and volume, partially offset by cost-out. The first half of '17 remains very challenging for the business. Despite positive equipment orders performance this quarter, our longer cycle equipment businesses in Turbomachinery, Downstream and subsea will lag the recovery on onshore. The team is focused on capturing growth opportunities and rebuilding its backlog. We continue to expect increased activity in our Surface, Digital Solutions and transactional service businesses as we move into the second half of the year. The Baker Hughes deal remains on track to close midyear. We filed the draft S-4 with the SEC and continue to work with global regulators. Both the GE Oil & Gas and Baker Hughes team -- integration teams are making great progress toward the closing.

Next up is Healthcare. Our Healthcare business had a solid quarter. Orders grew 7% versus last year and were up 8% on an organic basis. Geographically, organic orders grew 2% in the U.S., 5% in Europe and 21% in emerging markets. Emerging market growth was led by China, up 28%; the Middle East up 16%; and Latin America up 14%.

On a product line basis, Healthcare Systems orders grew 5%, 6% organically, driven by growth in Ultrasound up 10%, and Imaging products up 12% with broad-based growth in MR and CT as well as mammo on successful NPI launches. Growth in HCS and ultrasound was partially offset by Life Care Solutions, which was down 8%, primarily driven by the U.S. general market uncertainty around reform. Life Science grew orders 15%, led by Bioprocess up 25% and core imaging up 8%. Bioprocess growth was driven by an order for our Kubio product in the quarter.

Revenues in the quarter grew 3%, both on a reported and organic basis. Healthcare Systems revenues were higher by 3% versus last year, and Life Sciences revenue grew by 5%. Operating profit of $643 million was up 2% reported, but higher by 6% organically, driven by volume and productivity, partially offset by negative price and program and investments. FX was a $32 million profit drag in the quarter. Margins contracted 10 basis points on a reported basis, but were up 50 basis points, excluding the impact of foreign exchange.

The business continues to execute well on new product introductions and driving cost productivity. Healthcare is targeting further product cost-out in line with the 2016 performance they delivered. They are focused on driving more competitors and sourcing, increasing the number of Brilliant Factories and over 300 cost-out engineers dedicated to product competitiveness. Despite some uncertainty in the shorter cycle, lower ticket segment of the U.S. market around reforms, we believe the broader healthcare market supports our view of low to mid-single-digit organic revenue growth for the year.

Next is transportation. Domestic market dynamics were slightly more positive, building on the modest improvement we saw in the fourth quarter. North American carload volume was up 4.4% in the quarter, driven by 2.2% growth in the intermodal carload space and 6.6% growth in commodity carload. Commodity carload growth was primarily driven by coal, which was up 15%, and agriculture higher by 4%. Petroleum continued its weakness, down 6%. In addition, GE parked locos were down 24% from last year and down 11% from year-end. Although these signs of improvement are important, they're off a weak base and, as of yet, have not signaled a consistent trend.

Transportation orders for the quarter totaled $1.1 billion, up 70%. Equipment orders of $526 million were higher by 500%. We received orders for 37 locos and over 100 international kits versus no orders in the first quarter of last year. The 37 loco orders included 24 locos for North America. This is the first North American Tier 4 Class 1 order we've taken since 2014. Mining equipment orders were also higher. We received orders for 115 mining wheels versus 84 last year.

Service orders of $582 million were up 3%. Backlog finished at $20 billion, down 5% versus last year, driven by equipment down 27%, partly offset by services up 4%.

Revenues in the quarter were higher by 6%, with equipment up 15% and services down 1%. Locomotive deliveries were about flat year-over-year at 157 with a higher mix in international locos. North American locomotives were down 33%, while international locomotive shipments grew 159% driven by deliveries in Pakistan and South Africa. Op profit of $156 million was down 5% on unfavorable mix and higher digital investment, partially offset by cost productivity. No change to the outlook we shared with you in December. 2017 will be a challenging year with locomotive shipments likely down close to 50%, operating profit down double digits and pressure on margin run rates. The business continues to drive structural cost out as well as building their international backlog.

Next on Energy Connections & Lighting. Orders for the segment totaled $2.6 billion, which were down 2%. Energy Connection orders of $2.4 billion were down 12%, driven by Power Conversion down 36% and Grid down 8%, partially offset by Industrial Solutions, which grew 11% in the quarter. Power Conversion performance was driven by continued pressure in Oil & Gas and no repeat of a large inverter order in the first quarter of last year. Grid's first quarter performance was impacted by orders delays in the Middle East that will close in the second quarter, specifically a large order in Iraq. Industrial Solutions, which was up 11%, outperformed versus the NEMA market, which was up an estimated 3% in the quarter. Our current platform had orders in the quarters totaling $243 million.

Revenues for Energy Connections grew 1% reported and 4% organically. Grid grew 19%, partly offset by Industrial Solutions down 2% and Power Conversion down 26% organically. Current and Lighting revenues were down 11% with Current growing 3% and legacy business increasing by 22% as we exit markets and experience lower demand for older technology.

Operating profit in the quarter of $28 million was substantially higher versus last year, driven by structural cost actions. Energy Connections earned $20 million, and Current and Lighting earned $8 million. No change in the 2017 outlook. We expect better execution from these businesses with double-digit profit growth for the year. We expect divestiture of Industrial Solutions to happen late in the year.

Finally, I'll cover GE Capital. The verticals earned $535 million in the quarter, up 8% from the prior year, driven principally by lower impairments, higher tax benefits, partially offset by lower gain. GECAS, Energy finance and Industrial finance all had strong quarters, and overall portfolio quality remains stable.

In the first quarter, the verticals funded $1.8 billion of unbooked volume and enabled $2.2 billion of industrial orders. Other continuing operations generated a $582 million loss in the quarter, driven by excess interest expense, restructuring costs related to portfolio transformation and headquarters operating cost. As I've said in the past, these costs will continue to come down as excess debt matures and we rightsize the organization. Versus the first quarter last year, other continuing costs are down $800 million, driven by these lower excess debt costs, non-repeat of cost associated with both the first quarter of '16 hybrid tender offer and the preferred equity exchange. In addition, we expect incremental tax benefits associated with the completion of the GE Capital restructuring towards the second half of the year.

Discontinued operations generated $242 million loss, driven by exit plan-related items and operating cost. Overall, GE capital reported a net loss of $290 million. We ended the quarter with $167 billion of assets, including $43 billion of liquidity. Assets were down $16 billion from year-end. GE Capital closed on $7 billion of transactions in the quarter, including the sale of our French consumer finance platform and our Hyundai JV. In total, $198 billion has been actioned since April of 2015, $263 billion, including the spinoff of Synchrony. All major sales activity related to GE Capital exit plan is now complete. $8 billion of assets remaining will largely be run off over the next 12 to 18 months. As a result of this, as of March 30, GE Capital's non-U.S. activities are no longer subject to consolidated supervision by the U.K.'s PRA.

GE Capital paid $2 billion of dividends during the quarter and an additional $2 billion this week. We remain on track for $6 billion to $7 billion of dividends for the total year. Overall, the GE Capital team delivered a strong performance from the verticals, while executing on all aspects of our exit plan.

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

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**Jeffrey R. Immelt** - *General Electric Company - Executive Chairman and CEO*

Thanks, Jeff. We are reconfirming our 2017 operating framework and we should meet all of our goals for operating EPS. We're off to a good start on organic growth and margins. The goals for industrial operating profit and structural cost-out are in sight. Despite a slow start, we plan to hit $12 billion to $14 billion of industrial CFOA for the year. We believe that capital dividend should be $6 billion to $7 billion for the year. Dispositions are on track. We're on track to return $19 billion to $21 billion to investors through dividend and buyback.

So to recap, we had 10% orders growth, 7% organic growth, 130 basis points of margin expansion and 20% organic industrial operating profit growth, and a commitment to hit CFOA for the year. So this is a good start.

Matt, now for some questions.

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**Matthew G. Cribbins** - *General Electric Company - VP of Investor Communications*

Thanks, Jeff. With that, let's open it up for questions.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) The first question is from Scott Davis with Barclays.

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**Scott Reed Davis** - *Barclays PLC, Research Division - MD and Head of Global Industrials Equity Research*

Wanted to talk about the cadence of the cost out. I get to like a $230 million number in 1Q. I think that's what you said. I would assume, if you did that every quarter, you get to your $2 billion pretty -- on a kind of steady cadence. But the point is you commented that, that would ramp a little bit faster through the year. So how do you think about that $2 billion? Is that something that comes out steady over 2 years? Or is that something where you can front-end load a fair amount of it?

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**Jeffrey S. Bornstein** - *General Electric Company - CFO and SVP*

Yes, okay.

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**Scott Reed Davis** - *Barclays PLC, Research Division - MD and Head of Global Industrials Equity Research*

And just on that, if you can give a little bit of color on how much of that cost-out is really from last year's restructuring versus new cost initiatives.

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**Jeffrey S. Bornstein** - *General Electric Company - CFO and SVP*

Yes. So what we're talking about is structural cost or base cost, so fixed cost, it excludes variable cost. We talked about $2 billion of cost out, $1 billion each in '17 and '18. So the goal this year is to take $1 billion of that base cost out. If you go to the supplement, we do a walk for you in the first quarter. So in the first quarter, those costs year-over-year were down about $75 million. Now beneath that, we took out over $375 million of those costs. And that was partly offset by a couple hundred million more as we expected a higher Digital spend year-over-year and just wage inflation of about $80 million. So good underlying performance there. It's going to accelerate over the year because we've taken an enormous number of actions here in the first quarter across all of the businesses and Corporate. We talked about the effort around horizontal IT, which, we think, is worth $250 million in the year, what we just announced around the tax -- corporate tax team and that transition to PWC. We've kind of taken a number of headcount actions, both at corporate and across the businesses here in the first quarter. So we expect that to grow over the course of the year. The other reference points I'd give you is when we talk at the outlook meeting, we talked about 500 -- a goal of $500 million with which we had $1.7 billion kind of pipelined against. Against that original plan, the first quarter we were $200 million better than that original plan, so that gives us confidence that we're on track for the higher plan of $1 billion for the year. So I think you'll continue to see a better performance here in the second quarter. And then I think you'll see a real acceleration in the second half of the year.

To answer your question on restructuring from prior year, so within this bucket of cost, I said we took out $375 million before digital and the effect of EOP -- effect on wages. About $174 million of that $375 million was from prior-year restructuring actions.

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**Jeffrey R. Immelt** - *General Electric Company - Executive Chairman and CEO*

But I would say, Scott, having a good 130 basis points of margin with a lot of the structural cost still to kick in makes us feel good on the 100 basis point goal for the year on margins.

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**Scott Reed Davis** - *Barclays PLC, Research Division - MD and Head of Global Industrials Equity Research*

Right. And I know you're focused on the base fixed cost. On the variable cost, how does that play into the next several quarters?

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**Jeffrey S. Bornstein** - *General Electric Company - CFO and SVP*

So as we talked about -- let's go back to what we said at outlook. At outlook, we talked about a goal of 100 basis points of margin improvement. And we said 50 of that was going to come from everything we were doing around restructuring, et cetera. Then the incremental cost plan was going to deliver the next 50 basis points. If you look at gross margins in the quarter, we were better by 90 basis points. So gross margins is all products and service cost. So that's a good down payment against delivering the total year margin.

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**Jeffrey R. Immelt** - *General Electric Company - Executive Chairman and CEO*

And I would say, again, on gross margin, Scott, we built in kind of a negative mix, vis-a-vis, the LEAP and things like that. And we still can more than offset that with other strong programs we've got in the company.

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**Operator**

The next question is from Jeffrey Sprague with Vertical Research Partners.

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**Jeffrey Todd Sprague** - *Vertical Research Partners, LLC - Founder and Managing Partner*

Could we just explore a little more what's going on in Alstom? There was a comment about you're taking a different profile there. It was unclear what you meant by that. And it also sounds like one of the JVs got consolidated in the quarter.

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**Jeffrey S. Bornstein** - *General Electric Company - CFO and SVP*

Yes. Expand on your first -- I'm not sure I understood your first question, Jeff. Okay. So let me just talk about the JV, and then I'll let Jeff talk about the first part of your question. When we did the Alstom acquisition, as part of that, we acquired an interest in the JV in the steam space in India. And we were a minority shareholder. So we spent a little bit of -- an insignificant amount of money to actually gain controllership -- or control of that JV in India. So in the steam space, it's around steam equipment. It largely services India.

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**Jeffrey R. Immelt** - *General Electric Company - Executive Chairman and CEO*

And then Jeff, the comment I made is the profile of Alstom was always very highly skewed towards their last quarter. It's going to take a while to get that normalized on the kind of the GE time frame just based on some of the EPC work and project work they do. So that was the comment that I made.

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**Jeffrey S. Bornstein** - *General Electric Company - CFO and SVP*

Yes. I don't think that the profile is materially different than our own business. We have a lot of long-term contracts, 81-1 contracts that you know about, we're really building against those here in the first quarter. Those will hit billing milestones over the course of the year. And like our own equipment businesses, the Alstom equipment businesses will improve on cash performance throughout the year.

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**Operator**

The next question is from Andrew Kaplowitz with Citi.

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**Andrew Alec Kaplowitz** - *Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head*

So obviously, order growth inflected pretty positively in the quarter. And we know you have your management incentives in line toward delivering significant cash flow. So why isn't cash better? Why not maybe even sacrifice some orders from difficult customers if you have to for better cash or maybe pressure suppliers even harder to generate more cash? I guess, the question I'm trying to figure out is whether your issues are transient and cyclical, which we think they are, or some people think they're structural, especially in Power. How would you answer that question?

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**Jeffrey S. Bornstein** - *General Electric Company - CFO and SVP*

Well, when you look the first quarter performance, we talked about being $1 billion lower than our expectations, $700 million of that in working capital. And within that $700 million, $400 million really is related to receivables. Our receivables performance actually was pretty good in the quarter. Our collection, in fact, was better year-over-year. We did factor $1.3 billion less versus the first quarter of last year, but we expected to do that. It was really around the accounts I talked about. In Aviation, which we had a couple of hundred million of past dues that we don't normally experience in Aviation, those are already clearing here in the second quarter. And then some big past dues in the Middle East in our power business that are on schedule. They -- we will collect the majority what we expect to collect in the first quarter. We'll do that in the second quarter. Then we had a small kind of $100 million kind of miss in inventory versus our own expectations. Interestingly, across -- most of the businesses hit their inventory expectation. And our inventory performance year-over-year was $700 million better than the first quarter of last year. That's important because when we think about our working capital, we talked about $3 billion-plus of working capital improvement in the year to get to $12 billion to $14 billion, a big part of that is driven by inventory. Last year, we're really helped by progress in AP. This year, it's about receivables and inventory. So getting off to a $700 million better outcome year-over-year on inventory is good. But it was $100 million less than we thought it would be and that was all about Healthcare in North America. And that will liquidate -- that's mostly timing around sales and orders. So we're not too concerned about that. And then progress was a couple hundred million light versus what we expected. It was a $300 million use in the quarter. A big part of what drove that was we took enormous amounts of progress in the fourth quarter of last year in Renewables around U.S. onshore wind and people getting ahead of the PTC. We -- now we're shipping against that progress. So we're liquidating the progress. We collected the cash fourth quarter. Now we're revenue recognition -- we're rev rec-ing and shipping those units. And the majority of that cash was collected last year. Having said that, we have some really big orders, particularly in the Middle East, that we thought were going to get to financial close in the first quarter. It looks like that most those will get to financial close in the second quarter. I talked about earlier the big grid order in Iraq. I think we feel really good about that. I think next week, we're likely going to announce, which is -- was part of this progress news the biggest service deal in the history of our power services business in the Middle East. A really phenomenal transaction. We thought it was going to close a couple of weeks earlier. It's going to close next week, we believe. So we feel good about that. And then some progress we expected to collect out of West Africa, which will happen in the second quarter. So we were $1 billion off in those buckets versus what we expected. I think we feel good about how we move from where we are today to the $12 billion to $14 billion we talked about for the year. So if you just go back, I'm just trying to give you a framework on how to think about it. Listen, we committed to $17.2 billion of pretax operating profit. So using that as a baseline, from here, we see $12 billion-plus of net income plus depreciation between the second and fourth quarter. We expect to generate about $4.5 billion roughly of working capital improvements 2Q through 4Q. That's about on par with what we did in 2016. It's within $100 million to $200 million of what we actually did execute in 2016. Again, inventory, a big piece of that. We expect contract assets to be a drag here in the next 3 quarters of about $2 billion. For the total year, that would put us at about $3.9 billion. That is equivalent to what contract assets did in 2016. So at the moment, we're not planning anything better or worse. And then in other operating cash, which we give you a lot more disclosure in the K, we see that as a positive for the year, largely because we had the long-term incentive plan payout last year. We won't have that this year. And that's how we get to a framework of $12 billion to $14 billion. We're also looking for some of that big base cost structure we're taking out to fall through to cash as well. So we're taking $1 billion of cash. That should be virtually all cash as well. It will show up in the net income plus depreciation line. So that's a little bit of a cash hedge here on execution for the year.

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**Operator**

The next question is from Steve Tusa with JPMorgan.

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**Charles Stephen Tusa** - *JP Morgan Chase & Co, Research Division - MD*

So when you look at the noncash earnings from contract assets, how is that reported in the margin bridge? And then on the restructuring, with the $800 million of restructuring and other, is there anything in there that's not pure payback kind of headcount restructuring? And if so, what's the volume of that? I think you had a disclosure in your 10-K around that -- around the breakout of restructuring.

**Jeffrey S. Bornstein** - *General Electric Company - CFO and SVP*

Well, no, Steve, the $800 million of restructuring in the quarter is just that. It's restructuring. So it's -- they're projects with paybacks. So they are very much structured. When I say structure, I mean headcount and site capacity-related. So I'll give you some detail around it. $800 million of restructuring. About $500 million of that is really related to workforce capacity, okay, $500 million of $800 million. We got about $300 million, roughly, that's associated with plant capacity, consolidating footprint, et cetera. And then on -- the balance to get to $1 billion charge in the quarter is $200 million of BD. And that's really all Baker Hughes, Water, Industrial Systems and some of the digital acquisitions we closed in the quarter. So to answer your question, $800 million is all investment with payback. Ask your first part of your question again.

**Jeffrey R. Immelt** - *General Electric Company - Executive Chairman and CEO*

Okay. It's on the contracts.

**Jeffrey S. Bornstein** - *General Electric Company - CFO and SVP*

So -- yes. So contracts in the quarter are -- so on the CSA contracts, which is, I think, what you're talking about, CSA contracts in the quarter were up $1.4 billion year-over-year. $800 million of that increase was associated with contract updates, okay? And that's versus $500 million a year ago. So it's higher by $266 million year-over-year. Of the about $300 million, it's up year-over-year, a little more than half of that is in power. And most of that is associated with updates of part costs when we change standards every year. So for the contracts that were under review in the first quarter, if we change the standard on the part cost and deliver against that contract in the future, we did that update. And then there's a small update for escalation that's mostly around our Aviation business. We update it once a year on escalation within the service contract. The -- that part of long-term contracts that are revenues versus billing, so outside of contract updates was $600 million in the first quarter. And that's really where we've incurred shop visits, outages. We've incurred cost against those service contracts ahead of actually billing the hours or the events associated with it. So that's mostly timing. And some of that will come back over the course of the year, as we actually bill against the utilization or bill against an outage or a shop visit. So I would say that's mostly timing. That's the $1.4 billion increase that you see in contracts year-over-year.

**Operator**

The next question is from Julian Mitchell with Credit Suisse.

**Julian C.H. Mitchell** - *Credit Suisse AG, Research Division - Head of Global Capital Goods Research Team, Director, and Lead Analyst for United States Electrical Equipment and Multi-Industry Group for United States Equity Research*

Just one other quick question on the -- back to the cash flow. So Jeff Bornstein, I think you'd called out that $400 million of Industrial CFOA in the first half of last year. Was the implication that we should assume the first half of this year is around the same level?

And then also, my follow-up would just be on the contract assets piece. You've had outflows last year of about $4 billion in cash. It's about $4 billion out this year. Before that, in 2014 and '15, it was more like $1.5 billion to $2 billion per year. So I just wondered, with GE today, as you look out beyond this year, what's the normalized contract assets cash outflows we should expect annually?

**Jeffrey S. Bornstein** - *General Electric Company - CFO and SVP*

So let me take part 2 first. So yes, we expect the contract drag on cash flow for the year to be roughly the same, '16 versus '17, as you said, at about $3.9 billion. I think you got a number of phenomena that's going on. We're investing like crazy in productivity and cost-out. Whether that's additive, value-engineering, driving these plant closures, restructuring, all of this finds its way into lower cost. When we get lower cost, the cost to execute against our contracts improves. And when they improve, the accounting has to account for that and where it changes our view on the ultimate profitability of these contracts. That's one mechanism, and we're hugely focused on that. And I think you want us focused on that, that's all future cash, future economics, et cetera, on a go-forward basis. We're not pulling future profit forward. That is not what we're doing. We're just restating what -- where we are in the contract from inception to date. The second part is where the long-term service agreements that protect our installed base, our penetration continues to improve. When you look at the attach rate on the H turbine, on the LEAP engine, the population and our backlog around this contracts is growing substantially and has over the last number of years. And so there's a volume factor associated with it as well. What was the first part?

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**Jeffrey R. Immelt** - *General Electric Company - Executive Chairman and CEO*

I think on the -- I think it's the half we expect CFOA to be roughly comparable...

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**Jeffrey S. Bornstein** - *General Electric Company - CFO and SVP*

So yes. What I would say on the half, we think CFOA is going to be sequentially much better in the second quarter than the first. And we would expect year-over-year CFOA to be better through the half, equal or better to the half.

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**Operator**

And the next question is from Shannon O'Callaghan with UBS.

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**Shannon Rory O'Callaghan** - *UBS Investment Bank, Research Division - MD and Equity Research Analyst, Industrials*

So Power equipment orders up 25% in the quarter when gas turbines were down about 50%. I mean, it seems to support this shift you've been talking about from gas turbine sales to power island sales and the expanded scope. You also have pretty easy comps in Alstom. So I'm just -- I just want a little color on the sustainability of that kind of equipment order strength in power despite kind of a weaker gas turbine outlook.

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**Jeffrey R. Immelt** - *General Electric Company - Executive Chairman and CEO*

Look, I think, Shannon, we look at the total gas turbine market probably being roughly flat year-over-year. We do think this increased content is kind of here to stay. So it's our expectation that, that continues through the year. And then I think, at the end of the day, we've got a decent competitive position in steam. We don't have any false expectations about that market, but we will pick up some orders there as well.

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**Jeffrey S. Bornstein** - *General Electric Company - CFO and SVP*

Just to give you a little bit of color. So -- and I talked about it earlier. We landed 2 big steam turbine island orders in the quarter, which is hugely positive. We were much stronger on Aero units in orders in the quarter. We were up 20 year-over-year on Aero derivatives. And we took 10 more HRSG orders out of Alstom in the quarter than we did a year ago. And as you mentioned, we're down 13 gas turbines. So a little broader strength than just about gas turbines.

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**Operator**

The next question is from Andrew Obin with Bank of America Merrill Lynch.

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**Andrew Burris Obin** - *BofA Merrill Lynch, Research Division - MD*

Just a question in terms of progression of organic growth through the year. How much of first quarter growth was pulled from the fourth quarter '16 shortfall and were there orders or revenues pull from the second quarter and the rest of the year?

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**Jeffrey R. Immelt** - *General Electric Company - Executive Chairman and CEO*

Again, I -- certainly, there was going to be some spillover from Q4 into Q1. I still think 3% to 5% is the right way to peg the year. We're encouraged about how the first quarter started. And I would say, Andrew, business outside the U.S. is incrementally better than we had expected, I think, when we lined up the year. So I think there's some macro drivers that are also important in terms of our ability to capitalize on the year. And then I think 10% orders growth is a nice bellwether for investors to reinforce, I think, what our guidance is for 2017.

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**Jeffrey S. Bornstein** - *General Electric Company - CFO and SVP*

The only thing I'd add to that, Andrew, is at year-end, we talked about power, that we had some short ship, as we expected, gas turbines, both Aeros and units. We expect -- as we said on the call, we expect those to close here in 2017. We think those are good projects. Those did not close in the first quarter. So to answer your question, the orders performance you saw on the first quarter, particularly around power that we talked about from year-end, those units are not in the first quarter.

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**Operator**

That was our final question. I'll turn it back to you, Matt, for any closing remarks.

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**Matthew G. Cribbins** - *General Electric Company - VP of Investor Communications*

Thank you. The replay of today's call will be available this afternoon on our Investor website. We remind you that next Wednesday, we'll be holding our Annual Shareholder Meeting in Ashville, North Carolina. And Jeff, you're going to speak at EPG Conference on May 20. With that, Jeff?

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**Jeffrey R. Immelt** - *General Electric Company - Executive Chairman and CEO*

Great, Matt. And I would just spike out -- I think people were very encouraged by first quarter performance, 10% orders growth, 7% organic, 130 basis points of margin. I think a solid cash profile for the year. So I think, Matt, off to a great start. I think very encouraged by 2017.

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**Matthew G. Cribbins** - *General Electric Company - VP of Investor Communications*

Great. Thanks for joining today.

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**Operator**

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

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