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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the General Electric Second Quarter 2019 Earnings Conference Call. (Operator Instructions) My name is Brandon, and I'll 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, Steve Winoker, Vice President of Investor Communications. Please proceed.

Steven Eric Winoker ***General Electric Company - VP of Investor Communications***

Thanks, Brandon. Good morning, and welcome to GE's Second Quarter 2019 Earnings Call. I'm joined by our Chairman and CEO, Larry Culp; and CFO, Jamie Miller.

Before we start, I'd like to remind you that the press release, presentation, supplemental and 10-Q are available on our investor website. We now file our 10-Q in concert with our earnings, a practice we began in October 2018.

Note that some of the statements we're 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. Please note third quarter earnings will be the morning of Wednesday, October 30.

With that, I'll hand over the call to Larry.

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Steve, thanks. Good morning, everyone, and thank you for joining us. I'll start with some thoughts on our second quarter performance and our strategic priorities. Then, Jamie will cover the quarter in greater detail before I wrap with an overview of our Renewable Energy business and our outlook.

Let me begin by reiterating that 2019 remains a reset year for GE. We made some progress in the first quarter, and that continued in the second quarter. I'll remind you though that our own actions and the market dynamics may not always follow a straight line, but I will draw your attention to those elements that are most important for GE's results today and tomorrow.

First, our year-to-date performance is ahead of our outlook in several areas. We have not planned for perfection, meaning we have planned conservatively to cover market and execution risks, specifically within our Power business. At the halfway point, our performance at Power is better than expected, including better project execution, orders and working capital management. Restructuring spend is also lower.

Accordingly, we are raising our outlook for organic growth, adjusted EPS and Industrial free cash flow, which we now expect to be negative $1 billion to positive $1 billion while holding our margin guidance. This is progress but let me be clear, even with this mid-year increase, we recognize that our revised free cash flow range includes negative territory. Over time, as our operational improvements take hold, we continue to expect significantly better cash results.

Now looking at quarterly results. We saw top line strength. Orders were up 4% organically due to strength in Renewable Energy and Oil & Gas. We ended the quarter with backlog of $369 billion, up 11% year-on-year. This is comprised of equipment of $85 billion, up 4%; and services of $312 billion, up 13%. Services continue to be our most profitable part of the portfolio and a key differentiator with our customers. We are focused on growing and continuously improving these services across GE, which contributed to just over half of our revenues in the quarter.

Industrial segment revenue was up 7% organically driven by growth in each segment, except Power. Adjusted Industrial operating margins contracted 300 basis points organically due to significant declines in Renewables, Power and, to a lesser extent, Aviation, but this is not a surprise. While the makeup may be slightly different, in total, this is in line and not out of range with our full year margin outlook.

We separated Grid Solutions out of Power for better strategic alignment. We moved the higher-margin Grid software business into Digital and the lower-margin Grid equipment and services business into Renewables. This put the spotlight on the equipment and services business, triggering a $744 million noncash goodwill impairment, and we wrote down the entire goodwill associated with this portion of the business. Jamie will talk to this in more detail in a few minutes.

Our adjusted Industrial free cash flow was a negative $1 billion, down $1.3 billion from the prior year. This was at the high end of our quarterly outlook, largely driven by improved execution at Power, fulfillment timing and better orders at Renewables as well as lower restructuring.

Looking to the second half, we need to continue executing in Power and Renewables, especially on projects, delivery, cost and service. We are taking actions to delever. And at our upcoming strategy reviews, we will begin to roll out Hoshin Kanri, our policy deployment, the best method I know to bridge strategic intent with operating priorities deeply in a business. And of course, we are monitoring and managing a number of watch items, including trade and tariffs, the 737 MAX grounding, lower interest rates and our annual insurance premium deficiency and goodwill testing due for the third quarter.

Let me cover our 2 strategic priorities for 2019 in a bit more detail. First, with respect to improving our financial position, we monetized part of our 25% ownership in Wabtec, which was oversubscribed, delivering $1.8 billion in cash proceeds. We still hold an approximate 12% stake that we will monetize over time. We were also making progress on the Biopharma sale, which will deliver about $20 billion of cash proceeds.

At GE Capital, we continue to make the business smaller and simpler, completing approximately $2 billion of asset reduction year-to-date and moving $4 billion of aircraft lending receivables to held for sale. We ended the quarter in a solid liquidity position with just under $30 billion of cash at Industrial and Capital combined, excluding BHGE.

Next, on strengthening the businesses, at Power, we're seeing early signs of stabilization as we've been focused on improving daily execution. At Gas Power, orders were up 28% organically, bringing our total gas turbine units orders to 35 in the first half, and we are rightsizing the business for market realities, reducing fixed cost by an additional 10% in the quarter.

At Renewable Energy, orders and revenues were up double digits as we execute on our steep production ramp. In the first half, we delivered approximately 1,500 turbines and repower kits, and in the second half of the year, we expect to approximately double the number of deliveries.

At Aviation, we announced record wins at the Paris Air Show, which contributed to sequential backlog growth of 9%. And as it relates to the 737 MAX, we are working closely with Boeing to actively manage production while the fleet remains grounded.

In Healthcare, profit margins expanded 80 basis points organically. In our first collaboration with Roche, we released the NAVIFY Tumor Board 2.0, which integrates the Tumor Board with our medical image viewer, allowing radiologists and medical professionals from other cancer care disciplines to use the same dashboard for patient care.

To support our businesses, we need the right combination of direction and leadership. We made a number of new hires, including a Digital CEO, a CFO at the Power portfolio and regional Healthcare CEOs in China and the U.S. and Canada. We also appointed Monish Patolawala, the current CFO of Healthcare, to lead GE's operational transformation, driving operating rigor and lean management across the company. Monish reports directly to me.

Russell Stokes decided to jump in and lead the Power Conversion turnaround himself. In addition to looking after the Power Portfolio, Russell is bringing a greater operational focus to a business in turnaround mode. And with Monish in his new capacity, we brought more than 100 GE leaders to Greenville for a week-long lean action workout in June.

As I've mentioned, the reemergence of lean in all we do represents a major improvement opportunity in manufacturing and throughout the various functions at GE. What does this exactly mean? It's really about the way we are going to work, the most important being hyper-focused on the customer and seeing GE through the customers' eyes, especially regarding our quality and delivery performance.

Let me give you a couple of lean examples. In Healthcare, we recently value streamed macro billing cycle, looking at the to and the from, seeing 5 days of cash cycle reduction opportunity. And that wouldn't be a permanent end state. With automation and better governance of our billing processes, we've already improved by a day and see an opportunity to take full advantage of the 5-day opportunity on the value stream map.

At Power, as a direct result of our Greenville workout, we installed 1 single piece flow line for our HA turbine buckets, successfully connecting 15 machines and 6 independent processes. Due to this improvement, we've reduced the work-in-progress inventory from approximately 1,200 pieces to 65.

Now I know these examples may seem small, they are, but I think they're indicative of the opportunities we see across the entire company. In summary, we're on our way, but these are 2 quarters in what will undoubtedly be a reset the year. I'm encouraged cautiously by what we've accomplished, but there's much more to do.

Before I hand it over to Jamie to go through the quarter in greater detail, I expect that most of you have seen today's announcement regarding Jamie and our initiation of a search for a new CFO. With the stabilization beginning to take hold, this is the right time for a change. I want to take this opportunity to thank Jamie for her many contributions to the company, both as CFO and previously as a GE business leader. Jamie has been instrumental in working with the Board and me to develop our portfolio strategy, furthering our efforts to make GE a more focused industrial company and spearheading our deleveraging plan during an incredibly challenging period. I'm grateful for her willingness to support us through this transition.

Jamie, I'll now turn it over to you.

Jamie S. Miller ***General Electric Company - Senior VP & CFO***

Thanks, Larry. I'll start with the second quarter summary. Orders were $28.7 billion, down 4% reported but up 4% organically with strength in equipment, primarily in Renewables and Power. Services orders were up 3% organically, driven principally by Renewables and Oil & Gas.

Consolidated revenue was down 1% with Industrial segment revenues flat on a reported basis and up 7% organically. The biggest driver of growth was the Renewable Onshore Wind ramp, which was up 80% in the quarter. Year-to-date, Industrial segment revenues are up 6% organically.

Adjusted Industrial profit margins were 7.6% in the quarter, down 260 basis points year-over-year reported and down 300 basis points organically.

As Larry mentioned, this is driven by significant declines in Renewables and Power and, to a lesser extent, Aviation, which I'll cover shortly.

Net earnings per share was $0.01 loss, which includes income associated with discontinued operations for GE Capital. And GAAP continuing EPS was negative $0.03, and adjusted EPS was $0.17.

In the quarter, the IRS completed their routine audit of our 2012 and 2013 U.S. income tax returns. We had previously reserved for tax uncertainties associated with these filings that were resolved, decreasing unrecognized tax benefits. This had a $0.06 impact in continuing earnings and a $0.04 impact in discontinued operations, which were in our 2019 plan, though not in the second quarter as the specific timing was unknown.

Walking from GAAP continuing EPS of negative $0.03. We had $0.03 of losses primarily from the partial sale of our Wabtec stake, unrealized mark to market of our remaining equity as well as a held-for-sale mark on BHGE's reciprocating compressors business.

On restructuring and other items, we incurred $0.03 of charges, principally in Corporate and Power. Non-operating pension and other benefit plans were $0.05 in the quarter.

Lastly, we took a $0.09 non-cash goodwill impairment charge. As a consequence of separating the 2 businesses in the Grid Solutions realignment, we were required to reallocate its goodwill based on the relative fair values of the equipment and services business and the software business. The remaining fair value of the Grid Solutions equipment and services business was below its carrying value, resulting in the goodwill impairment, and there is no remaining goodwill associated with this business. Excluding these items, adjusted EPS was $0.17 in the second quarter.

Moving to cash. Adjusted Industrial free cash flow was a usage of $1 billion for the quarter and $1.3 billion lower than the prior year. Income depreciation and amortization totaled $1.7 billion, down $400 million after adjusting for the noncash goodwill impairment. Working capital was negative primarily driven by accounts receivable, which was impacted by the timing of collections from Boeing related to the 737 MAX and organic sales growth.

Inventory was also a usage of cash as we continue to build inventory for higher second half shipments, principally on Onshore Wind and, to a lesser extent, Aviation commercial engines.

Contract assets were a source of cash of $100 million. Other CFOA was negative $800 million, primarily driven by cash taxes. We also spent about $900 million in gross CapEx or $600 million ex-Baker Hughes GE, which is up slightly, driven by capacity investments in Renewables and Aviation.

At the half, free cash flow was negative $2.2 billion, down $800 million. Many of the year-to-date cash flow impacts are the same as what we saw in the second quarter, including pressure from the Onshore Wind ramp and 737 MAX grounding.

Overall, in the first half, our cash generation is running ahead of our prior outlook. This is largely attributable to better-than-expected performance at Power due to project execution and working capital improvements impacting both collections and disbursements as well as lower restructuring cash costs across the segment from a mix of timing, attrition and executing projects at lower costs.

As previously discussed, the MAX was originally outside the scope of our planning, and year-to-date, it impacted our cash flow by about $600 million or $300 million per quarter. However, for the first half, improved performance at Power as well as better aftermarket sales, services billings and timing of discount payments more than outweigh the cash flow pressure at Aviation. In the second half, if the plane remains grounded, we anticipate a negative impact of roughly $400 million per quarter.

Looking at the full year. Recall our original 2019 guidance for Industrial free cash flow was negative $2 billion to 0. That outlook reflected the potential for substantial variability period to period from our large global equipment-focused businesses as well as numerous transition items that are difficult to forecast such as the supply chain finance program transition, the anticipated settlement of legacy legal matters, restructuring and the watch items Larry mentioned. However, the improvements in Power, lower restructuring and higher earnings along with better visibility at the half give us confidence to raise our full year industrial free cash flow guidance to negative $1 billion to positive $1 billion.

Moving to liquidity. We ended the second quarter with $16.9 billion of Industrial cash excluding Baker Hughes GE. As discussed, Industrial free cash flow was a usage of cash of $1 billion, and we paid approximately $100 million in dividends in the quarter. We received $1.7 billion of cash net of taxes and fees related to the Wabtec transaction and another $400 million from other dispositions.

We contributed $1.5 billion of cash into GE Capital, which was used to fund the WMC settlement with the DOJ. All other items were a source of $400 million, which principally includes the reimbursement of cash owed to us from Wabtec and change in debt.

In line with our ongoing goal to reduce reliance on short-term funding, average short-term funding needs declined from about $15 billion in the second quarter of 2018 to about $4 billion this quarter. As stated, our goal is to get to about $5 billion of short-term intra-quarter funding needs while we execute our deleveraging plan. But we potentially could see some fluctuation in these borrowing levels in subsequent 2019 quarters based on disposition timing.

As it relates to our leverage targets, we expect to make significant progress toward our leverage goals by the end of 2020 despite the low interest rate environment. We continue to evaluate the best mix of options for deleveraging, considering economics, risk mitigation and optimal capital structure.

Next, on Power, orders of $4.9 billion were down 22% reported but up 2% organically. Gas Power orders were up 27% reported with equipment up 2.5x and services down 13%. We booked 4.6 gigawatts of orders for 16 heavy-duty gas turbines and 4 aero derivative units, which represent profitable growth and have lower execution risk. This was the second strong quarter of orders growth for equipment, which contributed to the Gas Power backlog, which is up 5% to $71 billion.

That said, we're continuing to restructure for the new gas unit market at 25 to 30 gigawatts per year. Power Portfolio orders were down 62% reported and down 32% organically, largely driven by Steam Power Systems with no repeat and a large nuclear steam order in the second quarter of 2018.

Power revenue of $4.7 billion was down 25% reported and down 5% organically. Gas Power revenue was down 5%, in line with our expectations. We shipped 4 heavy-duty gas turbines and 7 aero derivative units in the quarter versus 7 and 5, respectively, in the second quarter of 2018. We helped our customers achieve commercial operation on over 35 units and added almost 8.5 gigawatts of power to the grid.

Gas Power services revenue was down [7%] (corrected by company after the call) with transactional revenues up, more than offset by contractual services revenues down due in large part to the outage volume and mix in the second quarter.

Power Portfolio revenue was down 5% organically. Operating profit of $117 million was down 71% reported, and segment margins were 2.5% in the quarter largely due to the impact of dispositions, volume and lower productivity in Power Services.

At Gas Power, we're making meaningful progress on our $800 million fixed cost reduction plan over the next 2 years. Variable cost productivity also continues to be an area of focus, and we reduced the net employee count at Gas Power by 1,000 versus the beginning of the year. We exited 9 offices and 2 warehouses in the first half, and we are on track to decrease the number of offices by more than 25% and warehouses by more than 1/3 by the end of 2020.

At the half, orders of $8.6 billion were down 20% reported and up 7% organically. Revenue of $9.3 billion was down 24% reported and down 4% organically. Segment margins were 2.5%. Operating profit of $228 million was down 65% on a reported basis and 61% organically. We are only a few quarters into the Power turnaround. We now expect full year free cash flow to be flat to down instead of just down while we are on track to deliver revenues down high single digits and positive segment margins.

Next, I'll cover Renewable Energy. And as a reminder, the Grid Solutions equipment and services business is now included in Renewables as a result of the realignment, and this is reflected in the results we posted today. For reference, Grid Solutions is roughly 25% of Renewables revenues in the quarter.

Renewables orders of $3.7 billion were up 35% reported and up 38% organically. Onshore Wind orders were up 87% mainly driven by the U.S., up 2x. We have observed pricing stabilizing in line with our expectations. Revenue of $3.6 billion was up 26% reported and up 33% organically. Onshore Wind sales were up 81% reported mainly driven by strong equipment volume.

The business generated an operating loss of $184 million, down $269 million versus prior year, and segment margins were negative 5%. A large part of this decline is due to higher losses in Grid Solutions, Hydro and Offshore Wind as we began fully consolidating these legacy Alstom JVs in the fourth quarter of 2018. In addition, we faced headwinds from higher losses on legacy contracts, challenging Onshore project execution in Asia Pacific, increased R&D investment for the Cypress and Haliade-X, tariffs and pricing. This was partially offset by cost productivity and strong

volume. Onshore Wind in the quarter and year-to-date was profitable.

Our top priorities in the second half are quality and delivery. Based on the delivery ramp, we expect Renewables to remain on track for the full year guidance of double-digit revenue organic growth, and with the addition of Grid Solutions, we expect the margin rate to be negative in 2019.

Next, on Aviation, where we celebrated 100 years as a business in July, orders of $8.6 billion were down 10% reported and 9% organically. Equipment orders were down 24% driven by commercial engines down 34% on 4 significant GEnx orders in the second quarter of 2018. LEAP orders were up 77% on 693 LEAP engines for both Boeing and Airbus airframers. Service orders grew 3%. Additionally, backlog grew to $244 billion, up 9% sequentially, driven in part by a portion of the $55 billion of wins announced at the Paris Air Show.

Revenue of $7.9 billion was up 5% reported and 6% organically. Equipment revenue grew 5% driven by commercial engine, partially offset by military. We shipped 437 LEAP engines this quarter versus 250 in the second quarter of 2018, and CFM56 engine shipments were down 65%.

Military equipment was down due to timing of equipment deliveries. Service revenue grew 5% driven by commercial services. The spares rate was up 2% in the quarter driven by timing, and this brings our year-to-date spares rate to 28.5 million per day, up 10%, in line with our high single digits, low double digits guide for the total year.

Operating profit of $1.4 billion was down 6% reported on negative mix partially offset by improved price. Segment margins of 17.6% contracted by 200 basis points reported in the quarter versus the prior year. The margin rate dilution as in prior quarters was driven primarily by the CFM-to-LEAP transition, which was 80 basis points and the Passport engine shipment, which was another 90 basis points. Additional headwinds included a bad debt charge on one customer in a challenging financial position and additional cost on the GE9X certification delay as David shared with you at the Paris Air Show. There is no change to prior guidance.

Looking at the year-to-date Aviation results. Revenue was up 9% organically. Segment margins were 19.2%. We're still on track to deliver high single-digit revenue growth and segment margins of approximately 20% in 2019.

Looking at Healthcare. Orders of $5.2 billion were down 2% reported and up 3% organically driven by equipment orders up 3% and services up 2%, with Europe up 5% and China up 9% partially offset by the U.S. down 2%. On a product line basis, Healthcare Systems orders were flat organically driven by growth in Ultrasound and Services offset by Imaging and Life Care Solutions largely due to U.S. order closure timing. Life Sciences orders were up 12% organically.

Revenue of $4.9 billion was down 1% reported and up 4% organically. Healthcare Systems revenue was up 1% organically with strong growth in Japan and Latin America partly offset by pressure in China, the U.S. and the Middle East, particularly in Imaging. Life Sciences was up 12% organically.

Operating profit of $958 million was up 3% reported and 9% organically, and segment margins were 19.4%, up 80 basis points. Organic operating profit growth was driven by volume and cost productivity partially offset by inflation, tariffs and program investment.

Cost productivity was driven by continued execution on design engineering, sourcing and services productivity. Healthcare is on track to deliver the 2019 outlook, which includes Biopharma, of mid-single-digit organic revenue growth and margin expansion.

Moving to Oil & Gas. Baker Hughes GE released its financial results this morning. And Lorenzo and Brian will hold their earnings call with investors today following ours.

On GE Capital, continuing operations generated a net loss of $89 million in the quarter, which was favorable versus prior year primarily due to timing of higher gains, including the sale of an EFS equity investment, lower impairments, lower interest costs and the non-repeat of prior year asset and liability management actions partially offset by lower base earnings due to asset reductions. We ended the quarter with $109 billion of assets, excluding liquidity, up by $2 billion sequentially driven by insurance investment activities and unrealized gains.

GE Capital completed asset reductions of more than $500 million in the second quarter, totaling approximately $2 billion year-to-date and is on track to execute approximately $10 billion of asset reductions in 2019. We also classified $3.6 billion of aircraft lending receivables as held for sale, which is not incremental to the $10 billion target and will offset asset growth and other Capital businesses which have a stronger alignment to support GE Industrial growth. We remain committed to our strategy of shrinking the balance sheet and achieving a debt-to-equity ratio of less than 4x by 2020.

We finished the quarter with $12.5 billion of liquidity, which was down $3 billion sequentially, primarily driven by debt maturities. Activity in the quarter also included the $1.5 billion WMC payment to the DOJ offset by the parent equity infusion to GE Capital of $1.5 billion. We still plan to contribute $4 billion in total to GE Capital in 2019, including $2.5 billion in the second half.

We ended with $61 billion of debt, which was down by $2 billion sequentially, primarily driven by debt maturities. Discontinued operations earned $238 million, driven mainly by the resolution of the IRS audit for the 2012-2013 years partially offset by charges related to the WMC bankruptcy and other trailing costs. WMC filed for bankruptcy in April and intends to file a Chapter 11 plan to complete an efficient and orderly resolution. As we look out to second half, we expect lower earnings driven by lower asset sale gains and lower base earnings. We will also perform our annual insurance premium deficiency testing, which is expected to be completed in the third quarter of 2019.

At Corporate, adjusted operating costs were $462 million, up versus prior year primarily due to accruals for existing environmental, health and safety matters. We are still targeting $1.2 billion to $1.3 billion of net retained Corporate costs for the full year. However, we now expect to be at the high end of that range.

Today, Corporate-managed head count stands at about 12,000, down from our starting point of about 26,000 in mid-2018, with more than 2/3 of that reduction to date coming from internal transfers to the businesses and the remainder from outsourcing, restructuring and attrition. The bottom line is year-to-date we have exited about 1,500 of Corporate head count with real cost out, most of which is reflected in the segment results. As we said last quarter, we have a long way to go on rightsizing Corporate but we continue to push control and accountability down to the segments and remain committed to reducing net retained Corporate costs to less than $700 million by 2021.

With that, I'll turn it back over to Larry.

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Jamie, thanks. Given the recent alignment, we thought it would be helpful to spend a few minutes on Renewable Energy. It's comprised of 4 different businesses: Onshore, Offshore, Grid Solutions equipment and services business and Hydro. Strategically and operationally, we think it makes sense to have these 4 under the same umbrella as there are substantial revenue and cost synergy opportunities.

That said, they're each at different stages. In Onshore, where we have the #1 position in the U.S., we've launched the Cypress, which has received its first launch orders. In Offshore, we're in development mode as we build our global presence and prepare to launch the Haliade-X, the world's largest wind turbine. While Grid Solutions and Hydro are difficult books of business, we're working through complex projects and improving our daily execution.

Now looking at our quarterly segment profit and margins. The 4 largest headwinds to margins were legacy Alstom projects, challenging Onshore project execution in the Asia Pacific region, depreciation related largely to the Onshore ramp and our NPIs and higher R&D spend. As you can see, combined, these were an impact approximately 1,400 basis points. We're working very hard to offset these with strong volume and cost productivity, but there is more we must do.

In June, I spent a week with our Renewables leadership team. I left these meetings confident that we can grow this business profitably as legacy items run off. We're taking action to improve operations. We're running our commercial efforts differently with tighter pricing controls, led by the CFO. We're seeing traction as evidenced by positive pricing in the quarter, the first positive pricing we've seen in 10 quarters, and we believe pricing is stabilizing. We're also reducing cost and improving on-time delivery.

In all, this can be and needs to be a better business than it is today. We have a large backlog of projects to deliver and a healthy new product pipeline with solid returns coming over the next 2 to 3 years in both Onshore and Offshore. As we shared in our outlook call, we believe there's upside as we look to 2020 and 2021. This expectation remains.

So moving to Slide 10. Let me first emphasize the broader dynamics we discussed in our 2019 outlook. They remain largely unchanged. This is still a reset year. We're focused on execution at Power and returning the business to profitability. We see continued strength in our Aviation and Healthcare franchises.

At Renewable Energy, we're focused on delivering through the cycle. Non-operational items remain a cash headwind with more expected in the second half of the year. However, as we evaluate our performance year-to-date, updated for the reality of today and our expectations for the rest of the year, we are confident in the revised outlook. You'll find our updated targets on the left side of the page. We've already discussed the change in free cash flow, which you now see as a negative $1 billion to a positive $1 billion.

On organic Industrial segment revenues, we're up 6% year-to-date with a big second half ramp ahead of us in Onshore wind and Aviation. So now we're targeting mid-single-digit growth. On margins, our outlook is unchanged, up to 100 basis points.

While we were down 190 basis points in the first half, we expect the primary driver of upside in the second half to be the non-repeat of some of the 2018 charges, particularly in Gas Power. On adjusted EPS, we are raising our guidance by $0.05 as we now have better line of sight to the total year profile, which includes some upside in interest.

Lastly, on restructuring, our expected benefits remain unchanged. Both expense and cash this year will be lower. This is driven by timing related to certain projects. Attrition versus severance in some pockets has allowed us to reduce cost and executing on some projects at a lower cost than initially planned. We will continue to invest but only when the economics makes sense. Looking to the second half, as we discussed earlier, we are continuing to monitor our watch list items.

In summary, we made progress that we are encouraged about in the first half of the year, but it's early in a multiyear transformation. This is undoubtedly a game of inches. Across the organization, I see our team demonstrating candor, transparency and humility. They're engaged and focused on continuous operational improvement to achieve better results. The cultural shift is beginning to take hold as we are running GE differently. I saw this in our second quarter operating reviews, during our lean week in Greenville and most recently during the 2-week tour in Asia.

Looking forward, I'm confident in GE's long-term strengths, the size, the strength and the nature of our installed base in viable markets where service and technology matter and our strong recurring revenue streams from parts and services. This allows us to get close and stay close to our customers and continuously create value for them.

Before we take your questions, I'd like to take a minute and thank JoAnna Morris, who is retiring today after 42 years of faithful service. Many of you know Joanna well, and therefore, you also know her countless contributions to both GE's IR efforts and the broader industrial sector since she joined the IR team in 1990. It goes without saying, JoAnna has seen it all. Her dedication to GE and our investment community over her tenure has been tireless. We wish her all the best of luck in her retirement.

JoAnna H. Morris ***General Electric Company - Director of Corporate Investor Communications***

Thank you.

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

With that, we'll open the line.

Steven Eric Winoker ***General Electric Company - VP of Investor Communications***

(Operator Instructions) With that, Brandon, please open the line.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And from Vertical Research, we have Jeff Sprague.

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

Best of luck to JoAnna and Jamie. Thanks for all the help over the years.

Just on cash flow to begin. Just thinking about Power cash flows, right? You've introduced flat in your guidance, right? We went from down to flat to down. I don't know where other people were at, but it was kind of my expectation that down in 2019 meant something equivalent or even worse to what we saw in '18, negative $3 billion or so. Now that you've introduced flat, it actually suggests we were kind of off the mark somewhere else in what we thought the segment cash flows might track at.

I just wonder if there's something to be gleaned there? Is maybe Healthcare on the lighter side? Or is it Aviation on MAX? And if you do manage a flat result here in Power in 2019, does it still hold that you'd expect Power cash flows to be down in 2020?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Jeff, I think what we would say with respect to Power is that we have seen the stabilization that we referenced, right, with respect to the order book, which has been encouraging, the improvements on both expense and cash performance. But we're going to include that potential for the year-on-year number to be flat but it's still a flat to down range, right? There's still a lot of variability here.

To the extent that we are improving the range by $1 billion for the year, I think it is appropriate to look at that and say that the bulk of that is coming out of the Power performance. There is some benefit from both the lower restructuring activity and the interest, of course, offset by MAX. But the reason we're maintaining that $2 billion range is because we still have work to do in Power, right? That's where we have the better part of the risk here.

I'd say with respect to the other segments, clearly, as we've indicated, all eyes are on MAX, but broadly, we're really not offering up much by way of change in '19 for the rest of the segments. With respect to '20, it's probably too early to really comment on any change in trajectory. But what we've said earlier in the year back in March, on balance, holds.

Operator

And from JPMorgan, we have Steve Tusa.

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

Congrats and best wishes to Jamie and JoAnna as well. On this -- just following up on this free cash flow guidance by segment. What is the kind of -- now that you're halfway through the year, roughly the free cash flow for Healthcare embedded in the guide? Is that -- you said down. It was $3 billion last year. Should we think something in kind of that like $2.5 billion range? Or is it -- is there kind of a range to put around that to help us with?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

No. I think with respect to Healthcare, for purposes of today, Steve, no change in the Healthcare outlook from earlier in the year.

Operator

From Bank of America, we have Andrew Obin.

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

Can you hear me?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

We can, Andrew. Go ahead, please.

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

Also want to echo Steve's comments. Best wishes to Jamie and JoAnna. We'll miss you both. Just a question on Aviation. Free cash flow drag on Aviation, $400 million. What has gotten worse? And the number seems to be quite a bit higher than what Safran is saying. And just want to confirm that $800 million in the second half is part of the free cash flow guidance.

Jamie S. Miller ***General Electric Company - Senior VP & CFO***

Yes. So a couple of things. It was $300 million in the second quarter. In the second half, we do see that ramping to $400 million in each quarter while the plane is grounded. Remember, LEAP volume is planned to ramp in the second half, and that's really what that relates to, is just simply that volume uptick in the second half.

And then in terms of the overall outlook, certainly, we are monitoring that. It is embedded in the frame we talked about this morning though, of the negative $1 billion to $1 billion.

Operator

From Barclays, we have Julian Mitchell.

Julian C.H. Mitchell ***Barclays Bank PLC, Research Division - Research Analyst***

Wish also Jamie and JoAnna all the best. Maybe a question around Renewables. Help us understand, I guess, what kind of magnitude of EBIT loss for the year we should expect after a $400 million loss in the first half. And understood that the number is affected by the insertion of the Grid business, which is loss-making. Maybe help us understand how your assumptions for the base Renewable division ex-Grid have changed, if at all, since March.

Jamie S. Miller ***General Electric Company - Senior VP & CFO***

Julian, it's Jamie. When you look at Renewables in total with Grid included, I would just say -- repeat what I said in my prepared remarks, which is really that we expect our operating margin to be negative for the year. What we had said on legacy Renewables, that it would be about breakeven in operating margin.

And when you look at that, there are certainly things we're monitoring there with respect to Onshore wind deliveries, project execution and other elements that Larry and I both talked about on the call. And I think there could be a little bit of pressure to that 0 for the full year, but we see it hovering right around there.

Operator

From Melius Research, we have Scott Davis.

Scott Reed Davis ***Melius Research LLC - Founding Partner, Chairman, CEO & Research Analyst of Multi-Industry Research***

I'll be the fifth person to wish Jamie and JoAnna well, but it's been a lot of years.

Jamie S. Miller ***General Electric Company - Senior VP & CFO***

Thank you.

Scott Reed Davis ***Melius Research LLC - Founding Partner, Chairman, CEO & Research Analyst of Multi-Industry Research***

Particularly, JoAnna, thanks for your help over the years. It's been a long time.

But I wanted to go back to Power, if you guys don't mind. And can you help us maybe, Larry and Jamie, get some granularity around this 2.5% margin number? I mean what lingering impact of kind of cost of quality -- and I'll throw in like just crappy project execution in there and any other variable that you want to toss in there. Is there such a thing as kind of normalized, if you fix this crap, margin number that you could point to? Or any granularity at all to help us bridge down to that 2.5%?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Yes. Scott, I think that if Scott Strazik and his team were here, they would acknowledge fully that there's improvement potential throughout this business, right? And I just look at what I saw last week when we were in Atlanta for the operating review -- the July operating review. It was a stark contrast from a year ago. With respect to new units, it's a competitive space. We're in some challenging geographies. But just in terms of the way the team today is looking at what we call the strike zone in terms of the deals that we want to pursue versus those that we don't, right, we're laying in a global level of standard work.

So we've got everybody looking at opportunities through the same lens. They were being sober about cost and contingencies. That's what sets up some of that project execution that you referred to a moment ago. And they're really driving in deeply to get to root cause, to understand where we've had some of these issues, be it around the selection of an EPC, in and around the scope or the scheduling that we commit to, the terms and conditions, of course. I just think that while there is a good bit still to work through, we're writing a better book of business for the future.

Hard to put a basis points contribution over time on that, but I think that's serious because that, in turn, is what sets up the project execution itself, right? Once we've won, we've got to see things through. And I've been really encouraged by the project review board the team's put in. We're getting in early in the life cycle of these commitments. It's a cross-functional effort, really looking at what can go wrong and how do we mitigate but also what can we improve for the customer or for you, the shareholder. It's been helpful in managing handoffs and just getting the better daily management on the ground, around the world.

Now we have a watch list of projects there, right? Probably -- I think it's about 35 in number of projects where we really have to be in the weeds on a daily basis to get after this. But I think that combination, to me, gives real encouragement that we can manage this business better with an eye toward margin expansion. Obviously, the real game though is in services, and there's just similar opportunities there, right? We're not great in terms of our on-time delivery of parts and service. We're probably somewhere in the 75%, 80% range. Get to root cause, we can fix that. Just the way that we're managing the selling function, opportunities there in terms of our responsiveness, the specificity around what we do when we get a bid opportunity from a customer.

So I don't think we're ready to say this is worth 50 bps, this is worth 200. But hopefully, that gives you a little bit of a flavor of what we can do to manage the business in addition to the restructuring and the other cost-out efforts to drive margins and better cash over time.

Jamie S. Miller ***General Electric Company - Senior VP & CFO***

And Scott, just to add a little bit to that. In the second quarter, we had just over $100 million of charges related to margin erosion in projects. I think what we're really looking at is few surprises this year. In the second half, certainly, we're monitoring all the different areas, but the operational actions that Larry talked about are really giving us a much deeper level of visibility into the project economics and the timing of our cash and the various actions we have to take.

And you probably remember last year, in the second half, we took significant charges at Power, well over $1 billion. And when we look into the second half of this year, that's how we'll really measure our own performance, is not repeating those and certainly not repeating those to the same degree we had.

Operator

From Gordon Haskett, we have John Inch.

John George Inch ***Gordon Haskett Research Advisors - MD & Senior Analyst of Multi-Industrials***

Congrats, JoAnna and Jamie. I want to put a finer point around the MAX just so that I'm understanding what you're saying. So the flat guide of -- I'm sorry, the down 1 -- I'm sorry, let me take a step back. The MAX is going to drag kind of $1 billion to $1.1 billion. Is that in your number? And then you are sort of flattish number or the up number territory for next year. Does that assume the MAX is flying? And then does Boeing make you whole when it starts to fly? There's a comment that it makes customers or suppliers whole. Does it also make you whole so you get all of this money back in terms of what the drag is?

Jamie S. Miller ***General Electric Company - Senior VP & CFO***

Yes, John. The impact I talked about before is in our guide. And when the aircraft starts delivering again, when Boeing delivers the airframers, we will get paid for those engines. It's just a delay in cash timing.

Operator

From Wolfe Research, we have Nigel Coe.

Nigel Edward Coe ***Wolfe Research, LLC - MD & Senior Research Analyst***

And thanks, Jamie and JoAnna. Good luck with your next, next stage. And I'm glad that JoAnna [made a scene on the guide up], by the way, before she goes on.

So on the -- just want to kind of pick up the thread on the MAX here. So I mean Boeing's put out the possibility that rate could come down further from 42. Can you just maybe give us -- I'm not here for decimal points, but if you could give us some sense on how that influences the free cash flow outlook and also the margin impact. So I'm assuming that there would be some margin pressure if we have less variable contribution from engine production. So any sense on how that would impact free cash flow and earnings from rate reduction on the MAX?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Nigel, at this point, as I think we've all communicated, we're at a lower level of production than we thought we would be at this point in the year for obvious reasons. And all we're really trying to signal with the $400 million of cash pressure here in the back half -- $400 million per quarter is what is likely to happen if we do not see a return to service. So we just tried to simplify that without getting into trying to get ahead of Boeing or the FAA or other regulators with respect to when the plane is going to return to service and again, really refraining from any commentary in terms of what could change in terms of our trajectory going into 2020. But clearly, we're doing all we can to support Boeing and our carrier customers to facilitate a safe return to service for the MAX.

Operator

From RBC Capital Markets, we have Deane Dray.

Deane Michael Dray ***RBC Capital Markets, LLC, Research Division - Analyst***

My congrats to JoAnna and all the best to Jamie. I was hoping to ask a couple of macro questions, if I could. You all would be one of the only industrials not to comment or complain about some short cycle pressures and where and how might that be manifested in the results today. Some comments on geographies, especially China. It looked like Healthcare did better there. And then true us up on tariffs, $300 million to $500 million, what's the last update?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Dean, I think as we went through the reviews here in July, right, looking back to the second quarter, looking ahead to the second half, there wasn't a lot of finger-pointing at short cycle pressure. We certainly saw bits of the business that didn't perform at the top line in the way that we would have liked. I think the Healthcare revenues were a little soft in the U.S. and in China. I think we touched briefly on the gas service business. But I think we really look at that more, frankly, as a function of our own execution as opposed to short cycle pressure that we can point to. I think we want to be vigilant, but clearly, going into the second half with the backlog and the visibility that we've referenced a few times here, I think we felt good enough to tick up the revenue guide to that mid-single-digit range.

With respect to China, as I mentioned, I was there as part of a 2-week trip to Asia. I would say that the embrace of GE is strong at the customer level. At the government level, GE is seen as a key partner. We signed, as you may have seen, I think an important offshore wind commitment in Guangdong province while we were there. As you would expect, we had some key meetings with our Gas Power partner, Harbin. I do think having partners is going to be key going forward in China, and I'm glad we're partnered up with Harbin. But the trade tensions there are real. And you don't have to look past today's headlines to have that, I think, as a watch item. And how that plays out for our book of business in China, how it plays out more broadly for all of us is a bit unclear. I think we've tried to take in some of that pressure into account in the back half here, but we flagged it just given it's a variable good bit outside of our control.

Jamie S. Miller ***General Electric Company - Senior VP & CFO***

And just on China tariffs, impact in the second quarter was $90 million net, and really no change. I think we've said $400 million to $500 million of net impact for this year, and that's about what we still see, mostly in Healthcare and Renewables.

Operator

From Citi, we have Andrew Kaplowitz.

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

Best of luck to JoAnna and Jamie. Larry, obviously, good improvement in execution in Power, but maybe you could talk about the markets. Pretty strong orders so far, above your expectations. Is that more a result of your teams getting their act together? Or are you seeing some improvement in some of the major regions that you do business, regions of North America, Middle East, Asia?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Well, I think the team is doing a better job certainly, but again, it's very early, right. Whether we're talking about the top line, the bottom line, the cash, I don't want to -- I don't want any of this to sound like we are claiming victory. I think Scott and the team are focused, again, on a high-quality book of business. The share numbers will be what they are, but I think, over time, what we want to do is partner with the right customers in and around the opportunities that allow us to create value for them and, in turn, value for our shareholders over the life cycle of that commitment.

Clearly, as you well know, the gas business is different region by region. But I would just share briefly. Whether it was in Japan, whether it was in Singapore, obviously in China, on this last trip, I visited a site under construction in Malaysia, there's a lot of keen interest in adding gas capacity as they work through not only their own underlying economic growth but the energy transition. So we're bullish on that part of the world with respect to the gas business.

We need to be better in terms of the book of business. We need to be better at project execution, back to Scott's question, and then all of the details inherent in sustaining a good service business over the life cycle of those installations.

Operator

From Deutsche Bank, we have Nicole DeBlase.

Nicole Sheree DeBlase ***Deutsche Bank AG, Research Division - Director & Lead Analyst***

Best wishes to Jamie and JoAnna. So I guess I want to focus a little bit on GE Capital. It's been a source of upside versus expectations year-to-date. Do you still expect GE Capital to generate a $500 million to $800 million loss for the full year? And I guess what's driving the delta between 1 half and 2 half performance, if so?

Jamie S. Miller ***General Electric Company - Senior VP & CFO***

Yes. So GE Capital's continuing net income for the first half was $46 million, negative $89 million in the quarter. A lot of that is helped by timing of asset sales. In the second quarter, we had EFS gains. The GECAS elements were also more first half loaded. When you look at the quarter in particular, lower interest expense, the tax audit resolution, those things helped us. And when you pull back and look at first half /second half, I think you're going to still be impacted by timing.

So we are first half loaded on gains. You'll see that come back a bit in second half. In the third quarter, we do our loss recognition testing for insurance. In addition, we have our GECAS impairment testing. And the timing of this tax resolution in the second quarter, we did not expect that in the second quarter. We really expected that in the second half. So we still expect to be within that negative $500 million to negative $800 million; absent the LRT, probably at the higher end of that. But on the LRT, we'll update you in the third quarter when that's complete.

Operator

From Crédit Suisse, we have John Walsh.

John Fred Walsh ***Crédit Suisse AG, Research Division - Director***

I'll echo everyone's well wishes for Jamie and JoAnna. Appreciate the help.

So I guess maybe following off of Andy's question on Power. I mean, I think you're clearly making good progress in Power right around what you can control within GE. You've made investments, right, on H-frame for kind of more baseload power. But as I look at the market, right, I mean battery storage, right, is a potential technology disruption there, particularly around peakers. And I don't want to go specifically down that road necessarily, but as you're focusing on improving the margins, can you talk to what you're doing to also play offense particularly within Power, whether it's around your R&D investments or other investments the business is making to prepare for technology shifts that will continue to happen over time?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Sure, sure. Well, I would say you probably see it in a few areas, John. I think that clearly, as we see the transition from coal and nuclear to other sources -- cleaner, more efficient sources, gas is a beneficiary in that, right? So we're just, again, trying to make sure that we're plugged in country by country, customer by customer where we can be part of that. You're right, in certain places, gas will be used differently, and that will shape our product road map in terms of the types of upgrades that we offer as well as the new unit NPI journey over time.

I'd also say that with respect to storage and other opportunities that we might have, tucked away ever so discreetly on the Renewables page in the prepared remarks is a reference to hybrids, where what we've done is we've put our solar inverter in our battery storage efforts. And these are small, they're nascent, but they really are our opportunities to play here in the renewables because we see opportunities in and around the wind business particularly to lever our technology installed base in a broader way.

We don't talk a lot about that. We had a good session with the team last week looking at some of the second half investments that we're going to make there, and hopefully, over time, that will be more significant. But I would really say big picture, making sure we've got a best-in-class gas business during the energy transition while continuing to invest largely in our Onshore and Offshore Wind businesses is the way we are positioning ourselves for the energy transition.

Operator

Our last question, from Goldman Sachs, we have Joe Ritchie on line.

Joseph Alfred Ritchie ***Goldman Sachs Group Inc., Research Division - VP & Lead Multi-Industry Analyst***

Congratulations, Jamie, JoAnna. Just I guess my one question, you guys monetized your stake or a portion of your stake in Wabtec this quarter. Can you just remind us of any of the restrictions or plans that you have for your remaining stake both in Wabtec and for BHGE?

Jamie S. Miller ***General Electric Company - Senior VP & CFO***

So from a Wabtec perspective, there is a restriction that lasts into this fall. And on the Baker Hughes side, we are free to sell down at anytime those restrictions have lapsed at this point. But we continue to expect an orderly process with both.

Operator

And no further questions at this time. Mr. Winoker, any closing remarks?

Steven Eric Winoker ***General Electric Company - VP of Investor Communications***

No, I think we're good and available for calls with our team. Thanks, everybody.

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Thanks, everyone.

Operator

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