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CORPORATE PARTICIPANTS

Carolina Dybeck Happe *General Electric Company - Senior VP & CFO*
H. Lawrence Culp *General Electric Company - Chairman & CEO*
Steven Eric Winoker *General Electric Company - VP of Investor Communications*

CONFERENCE CALL PARTICIPANTS

Andrew Burris Obin *BofA Merrill Lynch, Research Division - MD*
Charles Stephen Tusa *JPMorgan Chase & Co, Research Division - MD*
Deane Michael Dray *RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment & Analyst*
Jeffrey Todd Sprague *Vertical Research Partners, LLC - Founder & Managing Partner*
Joseph Alfred Ritchie *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*
Joshua Charles Pokrzywinski *Morgan Stanley, Research Division - Equity Analyst*
Julian C.H. Mitchell *Barclays Bank PLC, Research Division - Research Analyst*
Markus M. H. Mittermaier *UBS Investment Bank, Research Division - Head & US Equity Research Analyst of Americas Electrical Equipment and Multi Industry Research*
Nigel Edward Coe *Wolfe Research, LLC - MD & Senior Research Analyst*
Scott Reed Davis *Melius Research LLC - Founding partner, Chairman, CEO & Research Analyst of Multi- Industry Research*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the General Electric Fourth Quarter 2020 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 Fourth Quarter 2020 Earnings Call. I'm joined by our Chairman and CEO, Larry Culp; and CFO, Carolina Dybeck Happe.

Before we start, I'd like to remind you that the press release and presentation are available on our website.

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 that we will hold an investor call on March 10 to provide more detail on our 2021 outlook.

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

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

Steve, thanks, and good morning, everyone. It's hard to think of a tougher year than 2020. However, our team performed, and the fourth quarter marked a strong free cash flow finish to the year.

Starting with our results snapshot on Slide 2. Industrial free cash flow came in at $4.4 billion in the quarter, $0.5 billion higher than last year. This was largely driven by better working capital and improved Renewables and Power orders.

For the year, we generated positive free cash flow of $600 million, or $300 million excluding BioPharma in the first quarter. Despite the weakness in Aviation, Healthcare drove our performance, delivering $2.9 billion of free cash and Power and Renewables continued to improve.

Orders were down 3% organically in the quarter. While down, this was a considerable improvement from the second and third quarters.

In 3 of our 4 segments, orders were in fact up. Notably, equipment orders at Renewables and Power were up double digits. For the year, orders were down 17% with 95% of this pressure Aviation-related.

Despite this, our backlog remains a strength at $387 billion with approximately 80% geared towards services where we have higher margins.

Industrial revenue was down 14% organically and 13% for the year. Services were down 22% this quarter driven by the Aviation aftermarket despite some moderation, outages and upgrades in Power and power upgrades in Renewables. While Services may fluctuate quarter-to-quarter, especially as we've seen during the pandemic, they create a multiyear backlog of profitable business, and importantly, keep us close to our customers, and we expect to grow in '21.

Industrial margin was 6.4% this quarter and 3.4% for the year. While this was an organic contraction on both measures, we saw sequential improvement through the year due to our more than $2 billion of cost actions.

Adjusted EPS was $0.08 for the quarter and $0.01 for the year, which includes an impact for the restructuring recast of $0.02 for the quarter and $0.05 for the year. Carolina will expand on this momentarily.

In all, momentum is growing across our businesses.

As 2020 progressed, we significantly improved GE's profitability and cash performance despite a still difficult macro environment. We're encouraged by the significant free cash flow growth this quarter.

We came into 2020 with a clear game plan at GE. We were expecting strong performance from Aviation and Healthcare while executing our turnarounds at Power and Renewables. We all know how the story goes. The COVID-19 pandemic hit and it hit us hard, but our battle-tested team embraced the new realities and moved on. This is best evidenced by the meaningful progress on our priorities.

Looking at Slide 3. One, we strengthened our businesses. This started first with what matters most: protecting the safety of our employees and taking care of our customers and our communities. At the same time, we remained focused on what we can control. We continued to build our world-class team at all levels with new leaders joining our existing strong bench of GE talent, and these leaders are playing a critical role in GE's operational and cultural transformation.

In support of our transformation and better results, we executed more than $3 billion of cash actions. This enabled strong free cash flow generation in the quarter, bringing us again into positive territory for the full year. Specifically, at Gas Power, we delivered positive cash flow one year ahead of our commitments due to our cost measures and operational improvements. And we saw traction across our other businesses. For example, all 3 Power Portfolio businesses generated profit growth this quarter, the first time in 2 years.

Two, we continued to solidify our financial position. Despite the ongoing market uncertainty, our liquidity remained strong, bolstered by our free cash flow performance. We exited the quarter with $37 billion of cash. You'll recall that in early 2020, we completed the sale of our BioPharma business for $20 billion. This cash enabled us to accelerate our balance sheet deleveraging efforts, and since the beginning of 2019, we've reduced external debt by $30 billion.

And three, we're building our foundation for long-term profitable growth. This starts with GE's purpose: rising to the challenge of building a world that works. We're leading in some of the world's most important markets: the energy transition, precision health, and the future of flight. And we're passionate about delivering for our customers while tackling the world's biggest problems. We're seeing this as we help customers decarbonize through leading technology across wind, gas power generation, and modernizing the power grid with digital and automation solutions. And this really came to life at Healthcare this year where we were on the front lines responding to the exponential increases in demand in certain products due to COVID-19.

And we're keeping our sights on the long term. Healthcare launched more than 40 new products, including the Mural Virtual Care solution, which provides a complete view of patients' status across a care area, hospital or system.

And we announced that we acquired Prismatic Sensors, which has photon-counting technology, a huge leap forward in the quality of images that can be captured on a CT. So as we play more offense in 2021, our team is energized about making our purpose a reality every day.

Now lean is how we will do this across GE and the real unfinished business. In the last 2 years, we've laid the groundwork, establishing our Kaizen Promotion Office and introducing lean fundamentals across the company. Now we're picking up the pace, scaling lean company-wide with an eye towards operational and financial impact through safety, quality, delivery, cost and cash improvements.

In Digital Grid, for example, our team used problem-solving and daily management to reduce quality defects by 25%. This helped drive savings that enabled the business to grow operating profit by 60% in 2020. As this team shows, you can apply lean in any part of the business, not just in manufacturing.

One of our key leadership behaviors is delivering with focus, which means ruthlessly prioritizing where we can add the greatest value. Two key opportunities for GE are aftermarket services and digital, often working in tandem to transform what we can do for our customers on a daily basis. For example, our Renewables and Digital teams are working together to develop AI-enhanced wind turbine inspections to reduce blade failures. In turn, earlier detection will help improve safety as well as reduce repair time and cost. These advances are possible due to our ongoing commitment to investing in innovation.

We also had some major product launches this year with the Haliade-X wind turbine and the GE9X engine receiving certifications. Both machines are leaders in their own rights offering incredible power output and efficiency.

So 2020 is certainly a year none of us will ever forget for its challenges, but even more so for how the world rose to meet them. At GE, I'm proud of the way we persevered in the face of great uncertainty, and we're set up well for the year ahead.

With that, Carolina will provide further details on our quarterly results.

Carolina Dybeck Happe ***General Electric Company - Senior VP & CFO***

Thanks, Larry. Broadly speaking, I'm also pleased with how we're progressing on our priorities. We're becoming more operational, we're deepening our focus on cash flow, and we're using lean and automation to improve speed, quality and scale. And we've started to see evidence of this in our margin and cash flow numbers. I'll share some examples with you today.

Turning to Slide 4. Larry covered our consolidated results, so let me provide some additional color on our earnings performance. First, we made some notable reporting enhancements. This better aligned with how we operate our businesses and will help us drive improvements. They also further enhanced transparency and disclosure quality. Of particular note, we now include restructuring expense for significant and higher cost programs in adjusted EPS and in our segment results. This will drive accountability in managing cost and benefits at the businesses. The restructuring recast was an impact of $0.02 in the quarter and $0.05 for the year.

Second, we're still managing through significant market volatility. Aviation continues to heavily impact our overall performance, pressuring our top line and our Industrial profit, but we saw progress in our other businesses. This quarter, while overall Industrial margin was down 350 basis points, excluding Aviation, margin expanded 340 basis points reflecting swift action and strong execution on our cost programs. As planned in 2020, we reduced structural head count by more than 20,000 or 11% and that's ex-dispositions.

Third, looking at continuing to adjusted EPS. Much of this difference came from the steps we've taken to improve our financial position and operations. There were a couple of main drivers. This includes our Baker Hughes mark and $124 million of restructuring expense tied to the significant high cost programs. I'd also point out debt tender costs, additional BioPharma-related tax benefit, and the remaining $100 million to close out the SEC matter.

In all, as our actions took hold we saw improving results to close this difficult year.

Moving to cash. We generated $4.4 billion of Industrial free cash flow this quarter, well above our expectations coming into the quarter. This is up $500 million year-over-year, but is also, ex-BioPharma, up $900 million. All businesses delivered positive cash flow, largely driven by better working capital management.

Cash flow benefited from positive earnings. Healthcare earnings were strong again this quarter, and together with Power and Renewables, were enough to offset Aviation's decline. You'll see that there are puts and takes between earnings and other CFOA. As seen in prior quarters, noncash items such as the Baker Hughes mark-to-market impacted earnings but not cash, and they were offset in other CFOA.

Consistent with how we run the business, we strengthened our working capital definition, broadening it to include current contract assets and other current items while our free cash flow definitions remain unchanged.

This quarter, working capital was the biggest driver of our free cash flow. A source of cash at $3.4 billion, this was significantly better sequentially and year-over-year due to seasonal volume and continued operational and financial process improvement. While we're seeing improvements across the board, inventory and payables were the net contributors to cash flow this quarter.

Looking at the dynamics. Receivable, naturally pressured from the higher seasonal volume in fourth quarter. We also reduced short-term factoring by $1.2 billion this quarter, bringing the total factoring balance down to $6.8 billion. Partially offsetting this were strong collections, resulting in a further decline in past dues and DSOs. Renewables was a standout this year, implementing a standard operating rhythm using lean to reduce its DSOs and its past dues by more than 25%.

On inventory, we released $1.6 billion across all businesses through higher deliveries driven by seasonality and more rigorous material management. For example, Healthcare's MR team is implementing a real pull system in production. So far, this has improved on-time delivery by roughly 15 points and increased inventory turns by a half turn.

Payables were also a benefit as volume increased this quarter. Progress collections were a net $1 billion inflow. This was driven by cash collected from large orders closed in Renewables and strong milestone deliveries, partially offset by Aviation and Power.

Contract assets, a net $800 million of inflow, this was due to Aviation CSA collections, including quarterly flight hours, annual minimum contract requirements and other items.

We're still carefully optimizing our investments to drive returns aligned with our long-term objectives. We held capex flat sequentially. In fourth quarter, this represents a reduction of more than 50% year-over-year; and for the year, this is down 31%. But importantly, we continued to invest in high-return and strategically important projects.

For the year, Industrial free cash flow was $600 million. All businesses, except Aviation, improved cash flows and ended the year stronger than they began.

Total Power generated positive free cash flow, including Gas Power, as we made faster progress on our fixed cost reductions and working capital improvements despite the negative cash flows at Power Portfolio.

Healthcare delivered an impressive free cash flow of $2.9 billion, while overcoming a $1 billion headwind from the foregone cash flows of BioPharma. This was driven by higher earnings primarily from the pandemic-related demand, cost actions, and better working capital.

Free cash flow at Renewables was negative $600 million, but a $300 million improvement year-over-year despite the impact of the PTC cycle. The focus on inventory management is paying off and we had strong progress from orders and milestone execution.

Aviation free cash flow turned positive this quarter and was nearly breakeven for the year, enabled by our significant cash actions.

Stepping back, our trajectory to sustainable cash flow growth was largely on self-help. I'm confident we're focused on the right areas:

operational cash drivers that improve working capital, increasing our frequency of our operating rhythms, and more linear cash flow generation throughout the quarters and the year. For example, all leaders have action plans to run their businesses leaner with lower inventory levels. In aggregate, our focus and actions to improve working capital are starting to pay off.

Moving to the segment results, which I'll speak to on an organic basis. First, on Aviation. GE and CFM departures were down approximately 48% this quarter versus our January '20 baseline due to the resurgence of COVID-19 cases and further travel restrictions. The commercial aftermarket, which is critical to our recovery, showed some sequential improvement.

Orders were down 40% year-on-year, but up more than 50% sequentially. Commercial Services was down more than 50% year-over-year with Commercial Engines down 21%.

It's important to recall that the fourth quarter of '19 included a $1.9 billion order from the aeroderivative joint venture formation. This was just under half of the total orders decline in dollar terms.

Aviation backlog stands at $260 billion, down 5% year-over-year yet flat sequentially. The largest driver was Commercial Engines as unit shipments and cancellations outpaced orders.

Cancellations were about 400 units, primarily LEAP-1B, this quarter, significant, but for context, our ending LEAP backlog still stands at more than 9,600 engines.

Revenue declines continued to moderate, down 34% this quarter, while revenue was up nearly 20% sequentially. Commercial Engine revenue was down 47%. As we shipped 309 fewer engines year-over-year. Commercial Services revenue was down nearly 50%. This was driven by lower spare parts sales and shop visits. Charges for long-term service agreements were approximately $150 million this quarter, roughly 1/3 is COVID-related. While customer demand remained strong in military, revenue was flat, falling short of our expectations. This was due to continued supply chain challenges, slowing shipments.

Segment margin, 9.6%. Margin expanded sequentially driven by the cost actions and improved volume in commercial markets despite more than $100 million of continued higher costs due to lower production rates. Decremental margins this quarter were 48%, up sequentially. This was due to continued volume pressure and a tough margin comp of 23% from 4Q'19.

So for the year, Aviation margin of 5.6% were supported by significant countermeasures. We realized savings of more than $1 billion of cost and $2 billion of cash actions. This work continues in '21.

Moving to Healthcare. The team delivered another strong quarter. The Healthcare Systems market remained dynamic with elevated demand in COVID-19-related equipment, offset by softer demand for non-pandemic products.

Regionally, public health care markets such as Europe and China have been stronger than private markets, particularly U.S., India, and Latin America. For the second consecutive quarter, global procedure volumes were relatively stable with some regional variability as care providers postponed elective procedures due to COVID-19 spikes.

With that backdrop, Healthcare orders continued to improve at 1%. In Healthcare Systems, orders grew 1%. Europe was up low double-digits, and China, up low single digits. Services saw consistent growth, up low double digits, as we continued to provide critical support to our customers. In PDx, demand continues to recover to pre-pandemic level and orders were down 1%, but up slightly sequentially.

Healthcare revenue was up 6%. Healthcare Systems was up 7%. LCS had solid execution delivering a record number of ventilators. Non-pandemic related volumes were also positive as we converted Imaging backlog and Ultrasound orders this quarter.

From a regional perspective, we saw strong growth in Europe and China. This year, China revenue was more than $2 billion, and up 11% in the quarter alone. U.S. revenue was more than $6.5 billion, up 2% for the year, including the U.S. Government's ventilator order. PDx revenue slightly down 1%.

The segment margin was up 310 basis points this quarter and 190 basis points for the year. While we continued to invest in new products, the team reduced structural costs. Headcount was down roughly 1,200 this quarter and the business maintained tighter control over discretionary costs.

For the year, revenue was up 4%, with Healthcare Systems up 5% and the margin was 17%. Our team delivered operational improvement and has headroom for more with an eye toward continued margin expansion.

Turning to Power. Our team continued to make operational progress, particularly in cash generation.

Starting with the market. Despite global electricity demand and gas-based power generation declining this quarter, GE gas turbine utilization and therefore our CSA billings were resilient, increasing mid-single digits driven by our technology and commercial positioning in higher-growth, gas-favored regions.

As anticipated, we saw significant orders improvement. Gas Power equipment order more than tripled with HA wins in Asia and securing 45 to 50 Heavy-Duty Gas Turbine shipments in 2021. Service orders grew 7% with double-digit growth in transactional and low single-digit growth in CSA while upgrade declines moderated from earlier in 2020, down single digits. For the year, service orders were down 3%.

Power Portfolio orders were down 27%, largely driven by Steam equipment. As we exit new build coal, this trend of limited Steam equipment activity has continued and as we execute backlog and rightsize the business, we expect this to flow through the financials. We ended with slightly higher backlog as growth in Gas Power more than offset declines in Power Portfolio.

Gas Power backlog of $66 billion grew roughly $700 million sequentially, driven by strong equipment and transactional services book-to-bill. Revenue was down slightly this quarter. In Gas Power, revenue was down 3% largely driven by services down 10%. We saw lower discretionary spend on upgrades and narrower scope of outages. For the year, we executed about 90% of our pre-COVID outage plan. Offsetting this was equipment revenue, up double digits.

We shipped 28 gas turbines this quarter, up 7 units year-over-year, for a total of 51 heavy-duty shipments in 2020. And, we commissioned 4 gigawatts of power to the grid, including 6 HA units.

In Power Portfolio, revenue was up 5% primarily driven by Steam equipment project execution. Our Power Portfolio team performed about 95% of their pre-COVID outage plans.

Segment margin of 6% was up 40 basis points. A double-digit reduction in Gas Power fixed costs was partially offset by negative revenue mix between equipment and services and some onetime, non-cash charges, including for specific customer credit event. In Power Portfolio, as Larry mentioned, all 3 businesses generated profit. Power conversion was a particular standout, better execution led to margin expansion of 10 points year-over-year.

For the year, Power revenues were down 5%, but the team held margins at 1.5%. We offset pressure from lower services volume and onetime noncash charges such as an underperforming JV for global aeroderivative packaging by reducing headcount by roughly 3,300 and decreasing Power fixed costs.

Turning to Renewables, our progress continues. This year, Onshore Wind delivered record volumes despite the pandemic. Offshore Wind received full certification for both its 12-and 13-megawatt Haliade-X. And, Grid and Hydro, our turnarounds, showed improved results.

Starting with the market. Onshore Wind growth was sustained by international demand. Offshore Wind continued to be supported by solid secular growth trends. And we've built a robust Haliade-X pipeline with total commitments of 5.7 gigawatts.

Orders were up 32% year-over-year, representing the first quarter of growth since 3Q'19. This was driven by Onshore Wind with large equipment orders in North America and Offshore Wind with its first Haliade-X order of 95 units from the Dogger Bank wind farm in the U.K. This double-digit order growth brings our backlog to a record high of $30 billion, and importantly, at better margins. We remain focused on underwriting discipline and better project selectivity.

Revenue was down 7% driven by Onshore Wind. Specifically, new units and repower upgrades were down 27% as our deliveries were more heavily weighted in the prior quarter due to the PTC dynamics. This was partially offset by growth in Offshore Wind and hybrids.

Segment margin was slightly negative this quarter, though up 290 basis points year-over-year. It was driven by cost productivity, better pricing in Onshore Wind North America and improved project execution. At Grid, profit, while negative, improved significantly driven by our restructuring actions and better project execution.

For Renewables, revenue was up for the year, and while the segment margin improved, it was still negative.

Moving to GE Capital on Slide 7. We ended the year with $103 billion of assets, excluding liquidity. Continuing operations generated an adjusted net loss of $24 million this quarter. This was down year-over-year, primarily driven by lower gains at GECAS and EFS and higher taxes, partially offsetting lower EFS impairments and positive marks on the Insurance investment portfolio.

At GECAS, our team continued to work customer-by-customer through restructurings, and in some cases, repossessions. At year-end, the outstanding deferred balance was approximately $400 million. This was down slightly sequentially, both as a function of limited new deferrals as well as collections.

Importantly, we've collected around 84% of what we've invoiced to date. And out of a fleet of more than 900 aircraft, we ended the year with 27 aircraft on ground. This quarter, GECAS generated a profit of $120 million. That's down $94 million year-over-year, driven primarily by the disposition of the PK Air in 2019 and market conditions.

For the year, GECAS generated earnings of $50 million, excluding the second quarter goodwill impairment.

Equipment lease impairments in the year totaled $542 million and $45 million in the quarter.

Going forward, we continue to monitor credit risk as further credit deterioration could result in additional airline failures over and above those that we have considered in our reviews.

Turning to Insurance. The business generated net income of $112 million this quarter. This was largely driven by increases in the unrealized gains in the investment securities portfolio and in mark-to-market adjustments and realized gains.

As it relates to the pandemic and adjusting for what we believe is timing related. In our LTC block, we continued to see reductions in new claims and higher policy terminations. In our run-off Life business, we saw -- we still saw higher claims due to higher mortality. In our structured settlement block, we also saw higher mortality resulting in lower claims. Insurance will complete its annual statutory cash flow test in 1Q'21.

As expected, GE provided a capital contribution to GE Capital of $2 billion, in line with the required annual insurance statutory funding for 2020. As we said in the third quarter, we expect an additional contribution from GE to GE Capital in '21 to meet its existing insurance statutory funding requirements of approximately $2 billion. In light of the uncertain environment, further 2021 contributions depend on GE Capital's performance, including GECAS operations and the Insurance CFT results.

Shifting to Corporate. Our focus on decentralization continues. We're driving more accountability to the segments and continue to resize the core in favor of the business units. This quarter, adjusted Corporate costs were $443 million, down 23% year-over-year. Functional costs and operations improved as we saw further reduced headcount, which was down 13% for the year.

GE Digital saw significant traction on profit and cash flow as the business improved operations and optimized its cost structure.

Moving to Slide 8. We continued to improve our financial position despite the uncertain external environment. We ended the year with about $37 billion of total cash, more than $23 billion at GE and $13 billion at GE Capital. We also maintained $20 billion of credit lines. And through a series of actions this year, we reduced near-term liquidity needs through 2024 by $10.5 billion.

We also continued to enhance our cash management operations, targeting more linear cash flow, lower factoring, and less restricted cash. As a result, we reduced intra-quarter borrowings by $3.6 billion in 2020, or approximately 75% less year-over-year.

Expanding on cash flow linearity. One focus area for our businesses has been improving the end-to-end cycle of order fulfillment, billing and collections. In our Healthcare System equipment business, for example, standard work is helping us level load the number of deliveries from the third month in the quarter to earlier in the quarter, smoothing out deliveries and collections. This is also reducing inventory and improving factory productivity. These types of operational improvements have reduced our Industrial cash needs to below $13 billion on a go-forward basis. And this creates greater capacity to de-lever the company. However, we'll continue to hold elevated cash levels through this period of uncertainty.

Turning to debt reduction. We made strong progress in 2020, reducing external debt by $16 billion. And our Industrial net debt ended at $32 billion, down $16 billion in '20 and down $23 billion from '19.

We also continued to derisk and actively manage our pension. In 2020, we decreased our pension deficit by $2.3 billion. The combination of strong asset returns at 17.6% and recent actions, such as the $2.5 billion pension prefunding, more than offset the impact of low interest rates. Based on our current assumptions, we won't need to make contributions through 2023 to the GE Pension plan.

In terms of leverage levels. Industrial ended with a 5.9x net debt-to-EBITDA ratio due to lower EBITDA, reflecting pandemic-related pressure. We remain committed to achieving our Industrial leverage target of 2.5x net debt-to-EBITDA over time.

At GE Capital, we ended 2020 with a debt-to-equity ratio of 3.4% and we expect to remain below our 4x debt-to-equity target.

In closing, our team has made meaningful progress this year. I'm encouraged by the results we're seeing from the many, many changes underway. We'll continue to build on this momentum in 2021.

Now Larry, back to you.

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

Carolina, thank you. Turning to page to 2021. We're planning to provide a full outlook for the company, including detailed segment information during our March investor call. But today, we'll share an overview for the total company in 2021.

Moving to Slide 9. We're expecting organic growth in the low single-digit range for Industrial revenue, organic expansion of 250-plus basis points for Industrial operating margin, $0.15 to $0.25 for adjusted EPS and a range of $2.5 billion to $4.5 billion for Industrial free cash flow.

Of course, there are a number of key assumptions underpinning our plan for the year. First is the lost cash and earnings from dispositions, largely BioPharma, which, again, generated nearly $300 million in cash and $400 million in profit in the 1Q'20 and the continued reduction of Baker Hughes dividends, which represented more than $250 million of cash flow in 2020.

Second, on Aviation, where the impact of COVID has been most acutely felt and our level of uncertainty is still the greatest. Starting with the market, our plan assumes departures remain close to fourth quarter levels in the first quarter, and we begin to see the commercial aviation market recover in the second half. That said, we fully acknowledge the pace of the recovery remains dependent on containing the spread of the virus, effective inoculation programs and government's collaboration to encourage travel.

At GE Aviation, we continue to expect the engine aftermarket recovery to lag departure trends across regions and fleets, particularly around quarantine requirements. And given that we generate a significant portion of our cash in Commercial Services, the recovery of the aftermarket remains critical.

So our full year plan assumes Aviation revenue is flat to up year-over-year. And as a reminder, since the full effect of the virus was not felt until late in the first quarter of last year, we will be lapping a tough comp.

Looking across our other segments. In Power, we anticipate continued progress at Gas Power with some offset in Power Portfolio as we exit new build coal. Overall, we expect equipment revenue will be down, driven by our narrower scope with less turnkey volume. We're also planning for growth in our higher-margin services revenue.

In Renewables, we're focused on improving operational execution and driving structural cost out. This will help us expand margins and improve cash.

At Healthcare, we expect continued strength in Healthcare Systems as our new products and commercial efforts drive growth and PDx to recover. While we expect cash conversion to remain solid, it will be lower than 2020.

And at Capital, we expect earnings to be better.

At each business, we're further accelerating cash performance and cost management with restructuring remaining elevated.

So in aggregate, we have a positive trajectory going into 2021 despite areas of volatility and the continued challenges in Aviation. We're focused on delivering on our commitments, and I'm confident that our continued efforts will build a stronger and more focused GE.

Turning to Slide 10. As we all know, 2020 was a year like none other. I'm truly proud of the GE team and their remarkable resilience. I hope you can see that in the face of great uncertainty, we continue to strengthen our businesses and deliver for our customers. And as we move through the second half, our businesses had a strong free cash flow finish to what was a challenging year. Momentum is growing across our businesses. We've continued to evolve our culture by embracing lean while preserving the strengths that have defined GE throughout its history.

And I'm excited about the opportunities that lie ahead, how we will continue to lead the energy transition, help our customers deliver precision health and define the future of flight.

As our multiyear transformation accelerates, we'll unlock upside potential with better cash generation, profit and growth. And ultimately, we expect that our Industrial businesses over time should generate high single-digit free cash flow margins while rising to the challenge of building a world that works.

With that, Steve, let's go to questions.

QUESTIONS AND ANSWERS

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

(Operator Instructions) Brandon, can you please open the line?

Operator

(Operator Instructions) And from JP Morgan, we have Steve Tusa.

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

Congrats on the strong finish on cash. Just curious on this GE Capital change, when did that start? And is there any impact on kind of working capital trends? I'm just kind of trying to figure out how -- you mentioned that the transactions remained on kind of an arm's length basis. But how does this kind of change the dynamic around working capital at all?

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

Okay. Steve, just for clarity, you mean the change in how we account for it on an equity basis that we just announced today?

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

Yes.

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

Okay.

Carolina Dybeck Happe ***General Electric Company - Senior VP & CFO***

Okay. Yes. Well, that is really to sort of simplify the way we show how GE Industrial is performing and how GE Capital is performing. That's the only change that we do there.

I would say, though, that looking at the reporting changes that we have done in the quarter or at year-end, there are a couple of significant ones. And the most significant is really the restructuring recast in moving responsibility for not only the sort of execution, but also the cost as well as the benefit to the businesses. So I would say that's the biggest and most important one.

And also, when we're talking about the working capital definition and the broadening working capital definition, that is really to more align with how we really run the business internally and operationally to drive improvements in working capital to show that also in the external reporting, and the classified balance sheet really goes with that. And then also was on R&D, right? You saw that as well, it's really showing that as a stand-alone line to increase transparency and highlight that.

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

Just a follow-up, will you be growing assets at GE Capital on a core basis outside of Insurance in 2021?

Carolina Dybeck Happe ***General Electric Company - Senior VP & CFO***

No. We're planning to keep that flat.

Operator

From Wolfe Research, we have Nigel Coe.

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

Just want to dig into your kind of outlook for 2021. At the midpoint, $3.5 billion, you'd be converting over 100% on your adjusted earnings outlook. So just wondering just in terms of broad strokes, what are you seeing in terms of working capital benefits, progress collections? Any detail there would be helpful.

Carolina Dybeck Happe ***General Electric Company - Senior VP & CFO***

So why don't I -- to your point there, why don't I sort of explain how we could walk to the midpoint of the guide. So we're guiding for $2.5 billion to $4.5 billion of free cash flow in 2021 with the midpoint there of the $3.5 billion, right? So you will have to start by re-baselining the numbers from 2020. So you take out the BioPharma -- disposition of BioPharma, and the Healthcare COVID demand and that really gets you to roughly 0 as a starting point.

And then I would say you have cash earnings, it's about 1/3, that gets you to the midpoint of our range with all the businesses planning for structural cost out, and here, we have both the normal course of strengthening the business, that's the business around, but also the carryover from the COVID 2020 actions. And on top of that, also the low single-digit organic growth that we're talking to, right, primarily in Healthcare, Renewables, and Aviation.

The remaining 2/3 are driven by net working capital improvements. It's including the factoring tailwind that we talked about. And it's partially offset by other items such as the non-repeat of military in Aviation that we've called out as well as higher AD&A payments from higher aircraft deliveries really pushed out.

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

And Nigel, I would just add that I think what you see coursing through both the cash earnings, and frankly, the working capital improvement are both the improvements that we're trying to drive commercially with respect to just better up-front opportunity identification, better underwriting, pricing terms and the like all the way through that up-front cycle, but also operationally, right? Be it in terms of cost, be it quality and delivery, that's helping us both in the income statement, but also, obviously, on the balance sheet.

And I think when you look at the fourth quarter numbers, you see some encouraging evidence that while it's still early innings for us with respect to the lean transformation, we're seeing some nice results. And that will just feed on itself, that will build momentum and that is something that we're looking forward to contributing in that bridge into the '21 numbers.

Operator

From Vertical Research, we have Jeff Sprague.

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

Just a kind of a 2-part question, if I could. Just share if you could a little bit of the restructuring variance embedded in what you just told us on cash flow?

And then also, Carolina, just picking up from what you said, if 1/3 of the earnings -- 1/3 of the cash flow is from earnings next year, that would kind of imply your underlying conversion is 65%, 70% or so. Is that what your underlying free cash flow conversion should be once we kind of normalize out of this thing?

Carolina Dybeck Happe ***General Electric Company - Senior VP & CFO***

Okay. So we'll start with the first question then on restructuring. So we have the recast, right, that we now include basically with moving the responsibility out into the segments and we're also including it in the EPS, and therefore, in the recast. So if you look at the quarter, for example, you have $0.02 of effect of that on our numbers. So from -- we go from $0.08 to $0.10 and $0.05 for the full year.

And if we look at the restructuring, we -- basically, we delivered on the $2 billion of cost that we committed to, but also the $3 billion of cash as we promised. And you do have a carryover effect of that going into 2021. It's about $0.5 billion that will then flow into the numbers and improve the earnings next year.

Operator

From UBS, we have Markus Mittermaier.

Markus M. H. Mittermaier ***UBS Investment Bank, Research Division - Head & US Equity Research Analyst of Americas Electrical Equipment and Multi Industry Research***

If I could maybe double click specifically on the Power free cash flow guidance. So it seems that you are clearly about a year ahead of targets here on fixed cost, but on that cash trajectory, you're guiding flat next year. Can you maybe just double click here, particularly on 12% down on the Gas Power services side, how much -- sorry, 12% down on the fixed cost side on the Gas Power side, you're down on services. But should we assume that there's no catch up on that side next year?

And then specifically on Steam and the exit of new build coal, is there something that in that fixed cost base you can address going forward? And how should we then think about that maybe over the medium term, if '21 is flat, how do you think about it over the medium term?

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

Markus, let me take a swing at that. I think you have the basic architecture in hand. The segment will be flat, but it really masks two underlying dynamics, right? You're spot on with respect to the improvement at Gas Power, I don't think we could be more pleased with the progress the team is making there. Clearly, a competitive market, no question.

But in terms of controlling what we can control, both, again, the better underwriting up-front with respect to equipment, the continued market acceptance of the HA, all of that, I think, is in our favor.

Services has been a challenge. We've talked about that, I think, through the course of 2020. A little bit of light there relative to the order book in the fourth quarter. But I think we really know the onus is on us to continue to drive better performance in all aspects of the Service portfolio there, be it CSAs, transactions, and upgrades. Upgrades was particularly pressured for us in '20. We know CSA is a function of utilization a little bit better.

So I think when you put all of that commercial and operational activity on top of the restructuring where we've taken $1 billion of cost out at Gas Power, you get the early arrival of that positive free cash performance in '20 as opposed to '21. And we really move from here with a team that I think has proven that we can control our controllable and deliver better results with this book of business.

I think when you talk about Power Portfolio, you put your finger on Steam, we're going to be restructuring as we exit coal, new build coal. That is the significant undertaking. It is early in that effort, and that will be a cash pull on us in '21 and probably to a lesser degree in '22 as we execute on that.

So when you put it all together, as you saw on the slide in the appendix, it will be roughly flat in '21. We'll be looking to drive Gas as best we can, but we need to see the new coal exit through and we'll do that as thoroughly and as thoughtfully as we can.

Carolina Dybeck Happe ***General Electric Company - Senior VP & CFO***

Yes. And just a comment on Gas Power specifically because we've talked a lot about the restructuring with the COVID-related restructuring, but it's really an achievement from the Gas Power team, with Scott and team. So achieving positive cash flow in 2020, a year ahead of plan, really basing on what Larry talked about, almost $1 billion of fixed cost out in the last 2 years. And then also basically, I would say, rebalancing our relationship with our partners and suppliers and significantly structurally increasing DPO as well as significant strengthening the processes that we still on DSOs and how we both bill, collect, including overdues, that's really gotten us to a positive cash flow already in 2020. So strong achievement there.

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

And just to come back, Jeff, to your second part of your question about the question of whether that number that you calculated for this year is an ongoing number or not. Carolina, why don't you take a minute to come back on that in terms of free cash flow conversion longer term?

Carolina Dybeck Happe ***General Electric Company - Senior VP & CFO***

Yes. When we look at free cash flow conversion longer term, we still -- we need to acknowledge that if we look at the earnings guidance also for next year, we still have elevated levels of restructuring and we have elevated levels of pension and legal and so on. So there is still significant room to improve our earnings and then also the structural process improvements that we are driving through the business on the working capital. So we see a healthy cash conversion. But will take a little bit longer than next year.

Operator

And from Bank of America, we have Andrew Obin.

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

On Aviation, one of the questions we're getting is that I think plane retirements this year have been below average because I think airlines did not really go bankrupt. But how do you see -- one of the questions we get is sort of plane retirements and Usable Service Materials availability into '21. How do you account for this in your forecast for your baseline forecast for Aviation in '21?

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

Andrew, you're exactly right. I mean the way we look at retirements in '20 just interestingly compared to '19, we actually saw fewer aircraft retire last year than we did the year before. But I think we're going to see that uptick in '21 in all likelihood here in the back half as volumes return and the deliveries at both of the major airframers pick up.

So we're assuming that we will see that retirement transition, and at the same time, while there's been a little bit of a bid-ask spread with respect to departing out some of those planes, we're anticipating that we'll see a little bit more of that USM effect as we get into the second half at a time when we should see a return to volume activity. I think people need to appreciate that USM cuts both ways for us. We've been a major user of USM given the nature of our CSA obligations over time.

So it will take a little while, I think, for that market to begin to really kick in. There is a lag, of course, from the time a plane is retired to the time that we would see it in the USM market. But I think as we look out over the next several years, again, not trying today to pin a particular time in which we see a return to normal volume activities, from our perspective, we anticipate deliveries to outpace retirements and that will be a net effect positive for us at Aviation.

The other dynamic worth noting there, of course, is when we look at the dynamics for our fleet today, when we highlight the fact we've got a very young fleet, what we really mean by that is we've got a little over half of the CFM56-5B and 7B fleet, they haven't seen their first shop visit, right? So they're still early in their life cycle, 3/4 of that same fleet have yet to see their second shop visit. So they'll typically see 3 during the course of a normal useful life. Our major economics happen in and around the first and second.

So as these planes come back online, that green time is used. Demand puts additional pressures on the fleet that those are the catalysts that we're really watching for relative to the beginning of the recovery and the return to, let's just say, '19 levels in our commercial aftermarket business there in Aviation.

Operator

From Melius, we have Scott Davis.

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

A little bit of a nitpicky question, but what's left in corporate that you guys plan on parsing out to the businesses if you can be somewhat specific. I mean is there still R&D that's done at a central level? Or is everything being kind of built out already? I'll just leave it there.

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

Yes. Well, there are a couple of things in place, Scott, and I'd rather talk about that internally before we talk about it externally. But in effect, what you've seen in the last couple of years really is not only the reduction of the core through absolute reductions, but also the movement of a number of the traditional corporate functions that had been at the center in some form out into the businesses.

There is still a fair bit of activity. You're referencing there specifically the Global Research Center where we have a shared facility. That's really not part in a major way of that corporate net number that you see there, right? The businesses are paying their way by and large in that regard.

Also, keep in mind, we've got a number of P&Ls in what we call corporate, principally the Digital business, our $1 billion software business. Some of those businesses are more independent than of the portfolio. Others are operationally linked.

So we'll continue to work to improve those businesses. And if there are situations where they can work more closely or better with the businesses under a different roof, we'll do that. But I think we'll continue to look for opportunities, but they will be, on balance, more modest in scale and scope than what you've seen in the last couple of years.

Operator

From RBC Capital Markets, we have Deane Dray.

Deane Michael Dray ***RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment & Analyst***

A couple of questions on Aviation. It was announced last week, one of the major airlines said they were restarting deferred engine overhauls. And just would like to hear how you expect to flex Aviation capacity back up to meet this normalized demand?

And then any color on the supply chain challenges you mentioned in Aviation.

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

Sure. Well, Deane, it's probably most helpful to just frame kind of what we did and where we are, right? We didn't bring that activity level down to 0. We tried to resize it in a way that embraced this harsh, unfortunate near-term reality, but gave us a little bit of room just because, back to Andrew's question, a number of dynamics that are hard to know in the short term with absolute certainty, be it the retirement dynamic, how fleets are going to manage green time just even in the short term, how folks are going to flex around the COVID effects as we saw in July and August and then in the other direction here in the first quarter.

So as an operational matter, I think what John, Russell, and the team are prepared for is a number of scenarios where when we see that recovery, we'll leverage some of the, if you will, the excess cost that is still there because again, we didn't take it to the bone. But also, we've laid in place plans that will give us an opportunity to ramp back effectively from a safety, from a quality, from an on-time delivery perspective, but also to have the right cost structure along the way. But we will be dealing with limits, right, in terms of our shop visit capacity in a particular window.

And then that's part of the conversation we're already having with customers as they begin to think about the second half of '21. They want to make sure that they have their fleet in tiptop ready-to-go condition. So a lot that we're working through there.

Clearly, our supply chain has been through a roller coaster right there along with us. I mean it was a year ago, I mean, literally, right now, when we're talking about not only continued volume ramps, but a new introduction clearly at Boeing with the MAX and then literally weeks later we're talking about slamming on the brakes.

Part of what you saw in the fourth quarter is a little bit better inventory performance because the lead times and the cycle times in Aviation tend to be longer than they are in some of the other businesses. But we are working as closely as we can with the supply base to help them do what we're doing and that is work through the near term here where we have these volume pressures, but also be ready for, again, a number of scenarios by which we see a return toward more normal volumes.

Operator

From Morgan Stanley, we have Josh Pokrzywinski.

Joshua Charles Pokrzywinski ***Morgan Stanley, Research Division - Equity Analyst***

Just on Aviation, maybe a 2-part question. Larry, you mentioned expecting a lag in terms of the recovery in your shop visits versus what the market traffic is, it doesn't look like it's happening today, but I get that's the phenomenon that develops over time. Just given so much of the free cash flow performance at the Corporate level is working capital and not earnings, I mean how much of the range is really dependent on Aviation as a market because it doesn't seem like there's a ton of volatility or expectation in the forecast that kind of Aviation core performance is really driving that. And maybe that's a lag or something else, but am I interpreting that right?

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

Josh, I would say that if Carolina walked you through kind of the walk to the midpoint as if GE was a business as a whole, the slide in the back of the earnings presentation where we look at cash flow by business, I think it's really meant to capture the fact that the bulk of the range is going to be made up by what happens at Aviation and that will largely be a function of what happens in the market, particularly the aftermarket. There's a bit of Renewables in the range there as well.

But I think what we've seen through the course of 2020 is that, fortunately, when all was said and done, our Power businesses were able to work their way through the pressure and the uncertainty. We had a number of orders at Renewables that came in at the end of the year, and we didn't know they were going to be there until they were there, and fortunately, they were. But clearly, this will be a year of climate broadly and that will be a good thing for our Renewables business.

And I think Healthcare, while we won't convert at the exceptionally high levels the team did and credit to them in the back half of last year, Healthcare, I think we've got good line of sight on.

So when you look at that range, I think the bulk of it, again, is really a function of Aviation. I like the way we're executing, we can always do better. But that said, it will really be a function of what happens in the end of the market. And I think what we try to do here is provide a framework that isn't assuming some sort of out-of-consensus early spike recovery in Aviation. That would be, in a word, foolish.

Operator

From Goldman Sachs, we have Joe Ritchie.

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

So I'm going to apologize up-front for the 2-part question, but I wanted to first ask a question to Carolina. To maybe just bridge us a little bit given the reporting changes, bridge the EPS guide for 2021 versus what you reported in 2020?

And then my second question for Larry. Just from a portfolio perspective, arguably, there's never been a better time to divest assets that you don't want longer term. How are you thinking about that for 2021?

Carolina Dybeck Happe ***General Electric Company - Senior VP & CFO***

So let me start with the EPS question. It is really focusing in on the restructuring, right? So I commented in the beginning that we have restructuring in the EPS now and that the effect of that for the full year is around $0.05. We do expect to have, I would say, roughly the same level of restructuring in 2021, right? So you don't have an effect from elevated or changed restructuring levels when you compare '20 to '21 when we do the walk on the EPS.

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

I would say with respect to portfolio evolution and capital allocation, Joe, take your point relative to the market dynamics, they are remarkable. But that said, I don't think any of our businesses are close to optimizing their underlying performance. And again, clearly pressure and some uncertainty here in the very short term, particularly around Aviation.

But I think what we want to do in '21 is build on the momentum that we think we clearly demonstrated last year, continue to pursue our strategic intent across the 3 major areas that we've talked about. And over time, we're going to be open to ways to deliver value, maximize value at GE.

But we still have a lot to do, still a lot in front of us. And I think that's the way at the end of the day that we will do right by shareholders, customers and other stakeholders.

Operator

From Barclays, we have Julian Mitchell.

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

Maybe just the first question around, or my only question really around the outlook for Power Portfolio, Larry. It seems like, looking at the slides, that's one of the few areas where the cash performance remains very, very difficult in 2021. Maybe just help us understand the moving pieces within that. And you assume that by the time you get to the end of this year, you've really sort of cleaned the deck and those businesses have a shot at positive cash flow in '22.

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

Yes. I would say that, I think we talked a little earlier about the makeup, encouraged by what we saw in 2020 at Power Conversion. Losing less money is different than making good returns, but you've got to work your way through that. And the Power Conversion business is doing that. Our Nuclear business is smaller, sub-billion size, but fundamentally stable.

The action, to your question, Julian, really centers on the Steam business. And again, exiting the new build coal business, which has largely a European base, is going to be a multiyear effort. We're in the very early stages of that. So that's really the primary cash pull on Power Portfolio and I would say in the segment in '21. And given the way that plan will inevitably play out, we'll be talking about this at least in the first part of '22 as well.

But I think we've got our arms around that. Again, it will -- all of that will mask a lot of the momentum that Scott and the team have built. But we'll keep you posted. It is what it is. But when we get to the other side, I think that segment is going to be a much better contributor for us.

Operator

And that's all the time we have. At this point, we will now turn it back to Steve Winoker for closing remarks.

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

Thanks, everybody. I'm going to actually -- I'd like to come back to a question that was raised earlier on the call about our reporting GE Capital and equity method investment within the GE Industrial column of our financial statements.

And I'd like to be clear, I think we'd all like to be clear, that it has no impact whatsoever on working capital or any individual transactions. It was done simply to simplify reporting and make that column more reflective of GE Industrial earnings as investors have been requesting. So I want there to be no ambiguity on that front whatsoever.

Thanks, everybody, for participating. We look forward to your follow-up calls and wishing you a good start to 2021.

Operator

Thank you. Ladies and gentlemen, this concludes your conference. Thank you for your participation today. You may now disconnect.

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