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Q1 2020 General Electric Co Earnings Call

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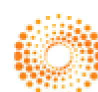

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PRESENTATION

Operator

Good morning, and welcome to the First Quarter 2020 General Electric Company Earnings conference call. My name is Brandon, and I'll be your operator for today. (Operator Instructions) Please note, this conference is being recorded.

And I will now turn it over to Steve Winoker, Vice President of Investor Communications. You may begin, sir.

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

Thanks, Brandon. Good morning, and welcome to GE's first 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.

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

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

Steve, thanks. Good morning, everyone. We hope you and your families are healthy and safe. Our thoughts are with all of those affected by this global pandemic. We recognize this is a very difficult and challenging time for everyone. On behalf of GE, I want to express our gratitude to those on the front lines and the medical community, many of whom we're privileged to call our customers, working tirelessly to protect all of us. Thank you.

When we last spoke during our outlook call in March, we were encouraged by the continued strength in Aviation and Healthcare and the progress made in Power and Renewables. In the 8 weeks since, the world has fundamentally changed.

As we all know, the COVID-19 pandemic evolved rapidly, hitting hard and hitting fast. While this is an earnings call, our goal today is to provide you with the most current and relevant information we have and as always, to be as open and transparent as we possibly can. So forgive us, if we run a little long today. The COVID-19 dynamics at GE, like the economy at large, are fluid and still evolving but clearly challenging in the near term.

With that, I'll start with our response to COVID-19. Carolina, who is joining our earnings call for the first time, will cover the financials, then I'll wrap with a more in-depth view of our current operations.

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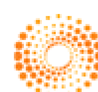

Moving to Slide 2. During this unprecedented time, we're focused on 3 areas: first, the health and safety of our employees and our communities. We established a COVID-19 task force that is working to ensure we're doing everything in our ability to protect the health and safety and aligning with the various government directives and medical advisories in real time. To that end, we've encouraged those employees who are not directly performing customer-facing essential jobs to work from home wherever possible.

But given the mission-critical work we do at GE, not everyone can stay home. I'd like to acknowledge our employees out in the field and in our factories for their unwavering dedication as they continue to deliver for our customers, supporting essential services like hospitals, power generation, airlines and national defense. We're ensuring they have what they need to do their job safely. This includes temperature screenings, face coverings and gloves as necessary and physical distancing, all keeping with national, state and local guidelines.

I'm also inspired by the support that our employees have shown each other. We recently established an Employee Relief Fund and more than 75 senior leaders across GE have contributed portions of their salary to support those affected by this crisis.

Our second priority is continuing to serve our customers. In Healthcare, we're ramping production of critical medical equipment used to diagnose and treat COVID-19 patients, including respiratory, CT, monitoring solutions, X-ray, anesthesia and point-of-care ultrasound product lines. Already, our team has doubled production of ventilators and plans to double again by the end of June.

Healthcare's digital and AI solutions are helping hospitals remotely monitor multiple patients at once and automate rote tasks, so clinicians can spend more of their precious time focused on life-saving work. Across all of our businesses, we're in constant communication with employees, customers, suppliers, and governments to maintain business continuity without disruption.

Our third priority is preserving our strength. First and foremost, a sound liquidity is crucial and solidifying our balance sheet remains a key focus. With the recent closing of the BioPharma transaction, we received $20 billion of net proceeds. This provides GE with optionality to protect our company and remain flexible. And importantly, we retained a $17 billion leading Healthcare business at the center of an ecosystem striving for precision health.

Preserving our strength in a time like this also requires a different operating model. Here, I draw on my experience as a CEO managing through 9/11 and the global financial crisis. There are three steps in this model: embrace reality, redefine winning and execute the plan. Easy to say, hard to do.

Starting with embrace reality. This is necessary in a time like this when so much has changed and remains uncertain. For us, it means recognizing that we're facing significant headwinds in Aviation, and we may be for a while. We wish it were otherwise, but that's not our reality.

Next, redefine winning. We came into 2020 with a plan to define winning as profitable growth, margin expansion and cash generation. Now we need to adjust to the altered environment to focus and inspire our team.

Let me share some ways we're doing this. While safety has always been a top priority for GE, COVID-19 has reshaped our safety agenda. In terms of our financial priorities, improving our cash generation and decremental margins in the second half are key focus areas. And in Healthcare, we clearly didn't come into the year expecting to increase our ventilator production fourfold, but we will.

And finally, execute the plan. We're moving with speed, discipline and intensity to improve our cost structure, targeting more than $2 billion of cost actions and more than $3 billion of cash actions. And this is where lean is particularly relevant from daily management through traditional Kanban systems, which help reset inventory levels; to new problem-solving tools we're rolling out across GE.

Let me share a recent example from Gas Power. In our Greenville facility, the team used lean to cut the distance that a single part travels during production from 3 miles -- yes, 3 miles to a mere 165 feet, slashing the time it took to make that part by 42%. These are the sort of operational efficiencies that are more essential than ever in this environment. So that's our approach here. We're facing the pandemic head-on while continuing to execute our long-term strategy for GE.

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Moving to Slide 3. You'll find a snapshot of our first quarter results. And Carolina will take you through this in detail, but first, a few top line thoughts.

As I noted, we entered the year with momentum. However, as COVID-19 continued to spread globally, and I'm not going to sugarcoat this, we got hit hard in some of our highest-margin parts of our best-performing businesses. This is especially true at aviation services, where COVID-19 caused a rapid decline in Commercial Aviation demand and even essential travel became difficult in the second half of March. A similar situation also transpired at Power Services, where travel restrictions caused by COVID-19 impacted our field personnel. And across all of our businesses, we started to see some project fulfillment and execution issues. At the same time, Healthcare performed well due to urgent demand for our products used in the fight against COVID-19.

Taking a step back, about 80% of our roughly $400 billion backlog is in services, which have a long time horizon. And while services have been hurt in the near term, those capabilities remain one of our greatest strengths. They keep us close to our customers with deep strategic relationships, especially through periods of volatility.

So in the spirit of embracing reality, let me frame for you what we're seeing right now at a high level. And then I'll do a deeper dive after Carolina reviews the first quarter.

In Aviation and at GECAS, airlines are conserving cash, not flying the planes they have, limiting maintenance spare spend where they can and all the while, deferring orders in many places. No one can predict when and how leisure and business travel will resume, but the reality is, likely, it's not soon.

So we're redefining winning from margin expansion in 2020 to improving our decremental margins this year, which requires we aggressively adjust our cost structure. That's what winning looks like for Aviation, and they're moving forward with a comprehensive plan. To be clear, we'll get back to targeting those 20% operating margins post pandemic.

In Healthcare, we've been on the front lines, combating COVID-19 since the early days in Wuhan. This is fundamental to our mission. While we've seen demand surge for certain products, other products, including those in our high-margin Pharmaceutical Diagnostics business, have been negatively impacted as multiple procedures are deferred. Healthcare is likely to rebound faster than Aviation, but we're still fast-tracking additional cost-out actions, targeting an incremental several hundred million dollars, since Kieran and the team spoke with you in December.

In Power and Renewable Energy, the impact of COVID-19 has been more limited to date. Specifically at Power, we're experiencing outage delays and restrictions in field service travel, and we're monitoring new unit orders and services. To offset this, we're further rightsizing the cost structure. And in Power, we already reduced headcount by 700 in the first quarter.

Now clearly across GE, there are a number of large variables that are unknown at this point, including the full duration, magnitude and pace of recovery across our end markets, operations and supply chains. We're also monitoring how the resulting interest rate environment will impact pension obligations and our runoff insurance business.

So let me tell you what we do know. The second quarter will be the first full quarter with pressure from COVID-19, and we expect that our financial results will decline sequentially before they improve later this year. The bottom line is we have some challenging times ahead but this, too, shall pass. I'm confident the underlying reset we took over the last 18 months to focus GE's portfolio and instill a greater focus on customers and lean give us a running start for what we face today.

Moreover, I see in our response to COVID-19 signs of how we're moving faster to change GE for the good: more lean work to help reduce inventories in the face of demand challenges in Aviation, travel restrictions spurring on the use of remote digital technology to complete fieldwork in Renewables and more capital discipline across the board. With new leaders assimilating faster and with real impact, Healthcare comes to mind. So all of this, in combination with the planned actions we'll discuss later, are accelerating our transformation of GE.

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With that, I'll turn it over to Carolina. But before I do, let me say how pleased I am to have her on board. In two short months, it's clear we share the same perspectives of embracing reality and operational bias for action and executing with speed.

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

Thank you, Larry. I'm proud to join my first earnings call as CFO of GE and help lead this company and turn forward. As you noted, we're operating in unprecedented times, having focused on: First, keeping our financial position strong and safe with a keen eye on leverage and liquidity as well as cash flow and capital discipline. While GE's actions over the last couple of years have put us on stronger footing ahead of this situation, we will do more.

Second, working with our businesses to take the right action, not only to help mitigate the impact of COVID-19 but to serve customers better, operate smarter and more efficiently and integrate lean more holistically. While Larry and I are focused on the near term, we're also managing for the long term. We're working together to reduce complexity at GE and build a lean culture that delivers sustainable earnings and cash flow generation. Today, my intention is to take you through our results in detail and provide context that help you see what I see across the businesses.

With that, let's turn to Slide 4. This was a challenging quarter for us as the macro environment rapidly deteriorated. Taking it from the top, first quarter orders were down 3% organically or down 4% ex BioPharma. Growth in Power and Healthcare was offset by double-digit declines in Aviation and Renewables. Both equipment and service orders were down low single digits. I'll cover this by business shortly.

Industrial revenue was down 5% organically, or down 6% ex BioPharma, with equipment revenue flat and services down 9%. Both Aviation and Power Services were adversely impacted in the quarter due to COVID-19. Adjusted Industrial profit margins were down 450 basis points organically. Most of the dilution came from Aviation and Renewables, with the Aviation impact mostly driven by COVID-19.

Now let's discuss the EPS work. Starting at continuing EPS of $0.72, there was a $0.75 gain primarily related to the $11.1 billion after-tax gain from the BioPharma sale, which also included $0.01 of tax benefit in GE Capital. This was partially offset by a $4.6 billion after-tax loss on our remaining Baker Hughes stake, which we'll measure at fair value each quarter. On restructuring and other items, we incurred $0.02 of charges. This is principally related to the reduction of Aviation's U.S. workforce. Lastly, nonoperating, pension and other benefit plans were a $0.06 headwind in the quarter. Excluding these items, adjusted EPS was $0.05.

As described earlier, our earnings performance was materially impacted by COVID-19 and other market dynamics. This was primarily in Aviation and GE Capital with negative marks and impairments in both GECAS and Insurance as well as higher credit costs.

We estimate the first quarter Industrial operating profit impact from COVID-19 roughly $700 million. Drivers included lower aftermarket sales, project delays and supply chain constraints. This impact is higher than the anticipated at the March outlook call, reflecting the rapid global progression of the pandemic, while our prior forecast largely reflected the slowdown in China.

Our focus on addressing this pandemic is global. We're targeting more than $2 billion of cost out this year. While this may not offset the full impact, we're rapidly addressing both cost and cash and making our businesses more agile and customer-focused over time.

I can tell you from my experience that as these programs build momentum and the company leaders begin to see how powerful results can be, they tend to extend beyond their stated goals. So just what I have seen so far, I'm encouraged that we can have some of that same experience at GE.

Moving to cash. As many of you know, the first quarter is typically low for our free cash flow. This year, we're impacted by our usual seasonality, but also COVID-19, especially in Aviation. Industrial free cash flow was a use of $2.2 billion, $1 billion worse than prior year. But notably, excluding Aviation, each Industrial business improved free cash flow versus last year.

Turning to the key drivers in the quarter. Starting with net earnings. If you exclude the BioPharma gain and the mark-to-market on our

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Baker Hughes investment, income depreciation and amortization totaled $700 million. That's down $900 million versus prior year. Next, working capital, negative $2.6 billion, with a significant use of cash, down $1.1 billion.

Let me take you through the main factors. First, we had a net inflow in accounts receivable driven by seasonally lower volume in Gas Power and Renewables. Second, we had an outflow in accounts payable driven by lower volume in Aviation and higher disbursements related to prior year material buys in Renewables. Third, we increased inventory to support an expected second and third quarter volume ramp in Onshore Wind and shop output decline in Aviation. Fourth, progress collections. There were a use of cash as new orders and milestone payments were more than offset by burn down of prior progress payments in Power and Renewables. Lastly, we also spent about $600 million in gross CapEx. We're on track now to reduce 25% of our CapEx spend this year.

For cash flow in total, we estimate the first quarter impact from COVID-19 was around $1 billion, the majority of which was felt in Aviation. As we look forward, we expect continued free cash flow pressure. We're targeting more than $3 billion in cash action. However, over time, we know that each business can be a better cash generator as we improve execution.

Moving to Slide 6. We continue to strengthen our balance sheet. The largest milestone in the quarter was closing BioPharma. With $20 billion of proceeds, we ended the quarter with $33.8 billion of Industrial cash, up approximately $16 billion sequentially.

GE Capital ended with $13.5 billion of cash, down approximately $5.3 billion sequentially, driven by contractual maturities. We continue to hold a liquidity balance covering 12 months of GE debt maturities. We've recently taken actions to enhance and extend our liquidity and pay down debt.

On April 17, GE entered into a 3-year $15 billion syndicated revolving credit facility. This was a planned refinancing of GE's prior $20 billion syndicated revolver credit facility. Including bilateral agreements, we expect to have in the range of $20 billion in total credit line access going forward.

Following the sale of BioPharma, we also improved our liquidity profile in April. We reduced our near-term debt maturities by issuing $6 billion in GE debt in April and subsequently, tendering for $4.2 billion of debt. We plan to use the remaining $1.8 billion of proceeds to further debt reduction, and the combination of transaction will, therefore, be leverage neutral. Following this, GE Industrial has no debt maturities in 2021, $1.9 billion of maturities in 2022 and $900 million in 2023.

At GE Industrial, we reduced debt by approximately $7 billion. We reduced commercial paper used by $1.1 billion in the quarter and repaid $6 billion of the intercompany loan from GE to GE Capital in April using proceeds from BioPharma.

At GE Capital, we reduced debt by $4 billion. We reduced external debt by $10 billion year-to-date including $4.7 billion of maturities in the quarter and an additional $5.4 billion of 2020 maturities tendered in April, offset by GE's $6 billion repayment for the intercompany loan.

Our financial policy goals remain: maintaining a high cash balance, achieving less than 2.5x net debt-to-EBITDA at GE Industrial and less than 4x debt-to-equity at GE Capital, a credit rating in the single A range and reinstalling a dividend in line with peers over time. We remain committed to achieving our leverage targets. But we now expect to achieve those targets over longer period than previously announced due to the impact of COVID-19.

Next, on Slide 7, we'll discuss the Industrial segment's results. Starting with Aviation. As we've noted, our first quarter results were materially impacted. Orders were down 13% organically, with both equipment and service orders down. Equipment orders were down 27% primarily driven by Commercial Engine business due to the MAX grounding and the COVID impact.

Services orders were down 4% primarily driven by Commercial Services, partially offset by Military, which won new fighter and helicopter service orders from the U.S. DoD. Service orders were stronger than revenues due to the Military orders, which were up 60% year-over-year.

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Backlog of $273 billion was flat sequentially and up 22% versus prior year primarily driven by long-term service agreement. This included roughly 200 LEAP-1B unit order cancellations in the quarter.

Revenue was down 11% organically. Equipment revenue was down 17%. We shipped 472 commercial installed and spare engine units this quarter, down 37 versus prior year. Sales of 272 LEAP-1A and -1B units were down 152. And CFM56 units were down 98 units.

Service revenue was down 8% due to Commercial Services, down 11%. This was driven by lower spare part shipments and lower shop visits from the impact of COVID-19. Total Military revenue was down 7%, with 146 engine unit shipments, down 9%. And this was driven by supply chain fulfillment dynamic and inbound material delay, partly offset by the advanced programs growth. Operating profit was down 39% organically, primarily on lower volume and negative mix pressures in Commercial Services from the impact of COVID-19 and lower spare engine units.

The segment margin contracted 650 basis points organically. This was primarily due to COVID-19, impacting our Commercial businesses in both engines and services, the continued 737 MAX grounding, the nonrepeat of prior year favorable contract adjustments and the first full quarter of revenue from our Aeroderivatives business, now that we have deconsolidated Baker Hughes.

To add a bit more color. COVID-19 represents just over half of the year-over-year margin difference. 737 MAX timing, considering install and spare engine volume and supply chain excess costs represent additional 20% of the variance.

Moving to Healthcare, which performed well. Orders were up 9% organically. Equipment orders were up 14% and services were up 1%. Healthcare orders, excluding BioPharma, were up 6%, driven by a surge demand related to COVID maintain. This was partially offset by delays in procurement and lower demand of products less related to COVID-19, examples like MR and interventional in Healthcare Systems as well as contrast media and nuclear tracers in Pharmaceutical Diagnostics. Life Sciences orders were up 10%. Backlog was $17.4 billion, down 6% sequentially and down 3% versus prior year due to the sale of BioPharma. So excluding BioPharma, backlog was up 1% sequentially and 4 versus prior year. Revenue was up 2% organically and 1% excluding BioPharma. Healthcare Systems revenue was up 2% for services and 3% with equipment flat. Life Sciences was up 4%.

Operating profit was up 10% organically. Segment margin expanded 140 basis points organically or 30 basis points, excluding BioPharma. This was driven by volume and cost productivity, offset by price and logistics pressures from COVID-19.

Next, on Power, we had mixed results with equipment, top line strength offset by challenges in services. Orders were up 14% organically. Gas Power orders were up 8%, with equipment orders up 37%, largely due to one turnkey order. We booked 2.2 gigawatts of orders for 9 gas turbines. Gas Power Service orders were down 3% with contractual services down and transactional upgrades roughly flat. Power Portfolio orders were up 27% with strong equipment and services orders in Steam and Power Conversion. Backlog closed at $85 billion, flat sequentially and down 1% versus prior year. Gas backlog was $71 billion, flat sequentially.

Revenue was down 12% organically, largely driven by services. In Gas Power, revenue was down 12%. Gas Power equipment revenue was up 4% organically on higher hedge turbine mix. We shipped 9 gas turbines -- sorry, we shipped 7 gas turbines versus 9 gas turbines in the first quarter of '19. We helped our customers enter commercial operations on over 32 units, translating for almost 4.7 gigawatts of new power added to the grid.

Gas Power Services revenue was down 19% organically as outages and transactional sales pushed out of the quarter due to COVID-19, and we had lower revenue on higher-margin upgrades. Despite this, services would still have been down in the quarter. This was driven by supply-based constraints on hot gas path parts and outage costs overall pressuring our CSA margin rate.

Power Portfolio revenue was down 12%. This was driven by lower volumes across subsegments. In Steam, we had lower services backlog convertibility. In Nuclear, the decline was driven by outage timing. And in Power Conversion, we refined our sales parameter, focused on higher-margin market segments.

Operating profit was down $239 million and segment margin contracted 570 basis points organically. While Gas Power fixed costs were

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down 9% sequentially and 16% versus prior year, this was more than offset by lower service volume and additional cost from COVID-19 disruptions.

Next on Renewables. Continued revenue growth was more than offset by fulfillment and execution issues impacting profitability. Orders were down 11% organically. Equipment were down 11% as we cycle a stronger U.S. PTC and services were down 23%. A positive spot in the quarter was international orders, which were up 11%. Backlog of $26.5 billion was down 4% sequentially, but up 5% versus prior year.

Revenue was up 28% organically. This was mainly driven by Onshore Wind, up 60%. Onshore equipment revenue was up 81%, with the new unit turbine deliveries of 731, more than double prior year, and repower kit deliveries of 219, up 40%. Onshore services revenue, excluding repower kits, was up 15%. Onshore order pricing index continues to stabilize at 1%, in line with recent trends.

Grid revenue was down 8% mostly due to site closures and delayed milestones driven by COVID-19. Operating loss was down $150 million. This was driven by the supply chain disruptions due to COVID-19, fulfillment delays and the nonrecurrence of the noncash gain from an Offshore Wind contract termination in the prior year. This was partially offset by higher Onshore Wind volume.

Segment margin contracted 210 basis points mainly driven by the same items mentioned above and the range of execution issues we're fixing at grid and hydro.

Moving to Slide 8. Starting with GE Capital. In the quarter, adjusted continuing operations generated a net loss of $118 million. This excludes the impact of the capital loss tax benefit utilized against BioPharma again, resulting in $88 million of earnings. Compared to prior year, which excludes the U.S. tax reform benefit, continuing net earnings was unfavorable by $154 million. This was due to negative marks and impairments at GECAS and Insurance, lower gains and lower earnings from a smaller asset base. This was partially offset by lower excess interest cost and SG&A.

We ended the quarter with $101 billion of assets, excluding liquidity. This was down $1 billion sequentially, primarily driven by GECAS due to asset sales, depreciation and collections, partially offset by new volume. Insurance assets were flat sequentially as a decrease in unrealized gains, driven primarily by higher market rates, was offset by the annual Insurance capital contribution. Supply chain finance assets were down as our suppliers continue to migrate to MUFG.

As noted earlier, Capital ended the quarter with $13.5 billion of liquidity. Capital also ended with $54.5 billion of debt, which was down $4.5 billion sequentially driven by debt maturities. Discontinued operations generated a net loss of $164 million, which was unfavorable versus prior year by $200 million. We still plan to provide the required support to GE Capital in line with insurance statutory funding.

Next, just like our businesses, corporate needs to adjust our new reality, and we are continuing to take additional structural actions to rationalize cost and reduce the size at corporate. Looking at the quarter, adjusted corporate costs were $374 million, 8% higher, but that's primarily due to higher intercompany profit eliminations, which were partially offset by better Digital performance from continued cost-reduction actions.

Functions and operations were 25% lower primarily driven by GE Digital's improvement. You can see from Digital's performance that the focused cost reduction programs are gaining traction. We continue to right-size our functional cost across GE and push more accountability into the divisions.

Larry and I are conducting cost and cash reviews of each of the businesses with fresh eyes in the current environment. So you can expect that there will be more to come. Stay tuned.

I have spent most of my career in leadership at lean, decentralized companies. Fundamentally, I believe companies outperform when they have a structure that empowers businesses to take the right actions quickly. This type of structure is critical to respond to situations like we have today with COVID-19 but also to be prepared to pivot to growth. We're working toward this goal, and there will be more to come.

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With that, back to you, Larry.

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

Carolina, thank you. There's no question that COVID-19 is putting real pressure on our businesses. Given that so much has changed, and this quarter will be our first full quarter with pressure from COVID-19, I'd like to spend some time here discussing second quarter trending based on what we're seeing through the month of April.

So starting with Aviation on Slide 9. Of all of our Industrial segments, this business is feeling the impact of the pandemic most severely. The rapid contraction of air travel has resulted in a significant reduction in demand as commercial airlines suspend routes and ground large percentages of their fleets. We'll cover Commercial Services and Engines on the next 2 slides in detail. But on the other end of the spectrum, demand for our Military business remains strong. To that end, we rebalanced some of our capacity to meet this increased demand.

To offset some pressure in the Commercial business, we're taking several steps that while painful preserve our ability to adapt as the environment continues to evolve. We've previously announced $500 million to $1 billion in cost and cash actions, and we've now increased this, targeting more than $1 billion in cost actions and more than $2 billion in cash actions. This will be achieved through different initiatives, some of which have been completed; others, in-flight as we speak. These include a 10% reduction in Aviation's total U.S. workforce and furloughs impacting 50% of its U.S. maintenance repair and overhaul facilities and new engine manufacturing. We'll continue to monitor and potentially extend as required. We're also focused on reducing discretionary and CapEx spend and optimizing working capital.

I know Aviation's decremental margin through this pandemic is top of mind for investors, and Carolina touched on the main dynamics impacting our margins in the quarter. While we expect our Commercial revenues and profits will continue to be down in the second quarter, our expectations are that the cost actions we're undertaking will improve decremental margins in the back half of the year.

While there are many uncertainties, I expect that we will exit the year with a much lower decremental margin than what you saw in the first quarter. So make no mistake, driving improvement here is our #1 focus.

As we think about the full year, we're tracking travel restrictions, carrier and passenger behavior, disease countermeasures and freight demand, all of which will impact aircraft departures and revenue passenger kilometers. While we're seeing an unprecedented decline in 2020, we're taking action, and David and the team are working proactively with our customers to navigate through this crisis.

So spending a little more time on Commercial Services, which represented $3.3 billion of revenue in the first quarter, let's go to Slide 10. As you can see on the left side, departures across the full industry were strong in the first quarter before rapidly declining in mid-March. As we look at it this week, focused on the GE and CFM fleet, global departures are down approximately 75%. Roughly 60% of the CFM fleet is parked today.

In line with this, we're also seeing significant headwinds in global shop visits, which were down low double digits in the first quarter as airlines defer short-term maintenance, and we expect this trend gets worse before it gets better, with some potential to moderate in the latter half of the year, depending on the variables just outlined. Based on what we're seeing through the month of April, in the second quarter, we're seeing shop visits down roughly 60% and CSA billings down roughly 50%. Additionally, we expect the significant reduction in utilization is likely to continue to pressure our CSA margins.

That said, when the aviation industry recovers, and it will recover over time, GE is well positioned with the largest and youngest installed base of all engine manufacturers. Additionally, roughly 62% of our GE CFM fleet has seen one shop visit or less, and this will generate demand upon recovery.

We have more narrowbodies that are 10 years or younger than the narrowbody installed base of the rest of the industry. And when we see a pickup in air travel demand, we expect narrowbodies will recover most quickly. Overall, it was a challenging quarter, and we're expecting additional pressure here in the second. But our cost actions will alleviate some of the pressure in the second half of 2020.

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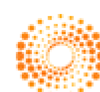

Moving to Commercial Engines, which represented $1.5 billion of revenue in the first quarter. In light of COVID-19, airframers are producing at a lower rate. Based on what we're seeing through the month of April, in the second quarter, we see installed engines down roughly 45% and spare engines down roughly 60% year-on-year, attributable to the delivery deferrals in addition to the already planned lower production rate on the 737 MAX. In the near term, we're rightsizing production capacity and actively managing the supply base.

We have very strong relationships with the airframers and an attractive value proposition as evidenced by a multiyear backlog. As you'll see on the right, we have strong positions, sole source on 2 of the biggest new engine entrants and a 65% win rate on the other. While we acknowledge there's pressure on near-term demand for new aircraft, these stats demonstrate that customers see the value of GE technology. We're taking the right actions to be well positioned for the post-pandemic world.

Moving to Healthcare, which consists of Healthcare Systems and PDx. In the second quarter-to-date, we're seeing increased demand for vital medical equipment in the diagnosis and treatment of COVID-19 within Healthcare Systems. Now these product orders, including ventilators, have increased 1.5 to 2x versus pre-pandemic levels. But at the same time, we're seeing reduced demand for other diagnostic products as certain procedures are deferred or canceled around the world. To be clear, these other diagnostics are still essential and often associated with saving lies in areas including oncology and cardiology, but are currently deprioritized.

PDx is a similar story. This is a high-margin business made up of contrast agents and nuclear tracers associated with procedures that are being deferred or canceled right now. Several HCS product lines and most of PDx is down as much as 50% versus pre-pandemic levels.

While these dynamics vary by country, there appears to be a pattern emerging as geographies experience different stages of the virus. Taking China, for example, as hospitals come back online, we're seeing a ramp in previously deferred procedures and increased demand for our equipment and consumables.

Healthcare is accelerating its planned transformation to expand margins post BioPharma by reducing headcount, fixed costs, discretionary spend and marketing spend, prioritizing R&D, deferring CapEx and optimizing working capital. Looking forward, we're most focused on the following indicators for Healthcare: hospital admission and occupancy rates, an increase in non-COVID-19 procedures, changes in hospital CapEx budgets, government spending on health care broadly and development of COVID-19 test treatments and vaccines. Based on our experience in China and the market in April, we expect to be down in the second quarter with potential recovery afterwards.

COVID-19 has highlighted the need to build and truly invest and scale a new digitized infrastructure and quickly. We're committed to our investments in our digital Edison platform and solutions like Mural Virtual Care Solution, which allows one clinician to remotely view numerous ventilated patients simultaneously, helping to expand their capacity while reducing their risk of exposure. As our digital health care journey continues, we're at the center of an ecosystem striving for precision health. I'm very proud of the work our team is doing to combat COVID-19.

Moving to Power on Slide 13. We'll talk to the current trending in the second quarter to date and dynamics at Gas Power and Power Portfolio. Starting with Gas Power equipment. While we're monitoring and managing supply chain disruptions, as of today, we still see a path to 45 to 50 gas turbine deliveries this year. But our orders profile and, therefore, cash down payments worth several hundred million dollars are likely weaker due to IPP pressures in the U.S. and Mexico as we expect that deal financing will become harder through the year.

Additionally, with oil price pressure impacting Middle East and SSA investment, including demand for new LNG, we are expecting a longer road to normalization. Ultimately, we're sticking to our strategy of securing a lower-risk, margin-accretive backlog with disciplined execution.

In services, approximately 20% of planned outages are shifting from the first half of this year due to COVID-19 field labor constraints. We're also seeing pressure on upgrades, primarily in the Middle East, where low oil prices are impacting customer budgets. We are seeing GE gas turbine utilization in the U.S. up mid-single digits due to low gas prices and the shift from coal, but utilization globally is

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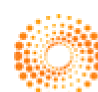

down low double digits due to lower electricity demand.

Within Power Portfolio, our Steam business is most impacted. Factory closures pressured our Steam operations including one facility in Wuhan, which was closed for approximately 8 weeks in the first quarter. Today, we're back up to more than 70% of capacity. The global supply chain has also been disrupted by the shutdown in India driven by government restrictions. Overall, we're seeing about 30% of outages shift from the first half of this year to the second half with another 10% to 15% pushing into next year.

Our Power businesses are taking several measures to offset these pressures. In the first quarter, we reduced headcount by 700, notified approximately 1,300 contractors, implemented a hiring freeze and in line with the demand profile, we're taking even further actions. This will serve to reduce fixed costs in 2020 and drive benefits in 2021.

Looking forward, we're tracking a number of items, including timing of our gas turbine new order closure, service outages and volume, fleet utilization as the energy mix and fuel prices are impacting each region differently, supplier impacts and project execution, billing milestones and customer collections. We're targeting to have our accelerated cost-out measures drive organic margin expansion despite these demand changes.

Moving to Slide 14 on Renewables. There was a limited impact of COVID-19 in the first quarter, and our disappointing results continue to be largely about improving execution. As we've said, we think about Renewables in 3 distinct operating pools. Starting with Onshore Wind. While we continue to deliver at record levels in the Americas, we are seeing supply chain disruption at our LM Wind facilities, and we're monitoring key commercial milestones such as permitting and financing, which could potentially cause timing delays.

In Offshore Wind, certification for our industry-leading turbine, the Haliade-X remains on track. We're also on plan to start delivering on our 80-unit, 6-megawatt commitments to EDF. After completion of this project in 2021, we expect to start shifting production to the Haliade-X. We're also monitoring financial closure of 2020 deals.

Grid & Hydro, our two turnarounds, are impacted by supply chain disruptions, with over half of our grid facilities now operating below full capacity. And in Grid automation, we're also impacted by lower book-to-bill order conversion.

Across all three of these pools, we're increasing cost out and restructuring, and we've identified several hundred million dollars of additional actions. Longer term, a lower cost structure will benefit Renewables. Relating to the global supply chain, we're focused on the safe reopening of our plants globally and then optimizing the workforce in plant load levels.

Looking forward, we're expecting a larger impact from COVID-19 in the second quarter. And by business, we're tracking '20 and '21 demand impact on progress collections and potential site delays in Onshore Wind, the risk of financing delays associated with deals at Offshore, project site delays at Grid & Hydro, and the backlog at Grid.

On Slide 15, within GE Capital, our GECAS and Insurance businesses are where we are feeling the largest impacts so I'll keep my comments focused there. First, GECAS is better positioned today than in previous downturns, with better asset quality, less customer concentration and more geographic diversity. That said, we're preparing for elevated repossessions and redeployments as well as lease restructurings and we've had approximately 80% of our customers seek short-term deferrals. As you may have seen, we've agreed with Boeing on a rebalancing of our 737 MAX order book.

Second, at Insurance, marketing rate volatility is impacting the current value of our investment portfolio and reinvestment yields. Therefore, we're deploying capital to capture market dislocation investment opportunities. We're closely monitoring how this volatility will impact Insurance this year. And similar to the industrial segments, we're implementing incremental cost and cash actions. Looking forward, we continue to expect higher impairments and lower asset sales at GECAS and Insurance. Our seasoned teams are working closely with our customers to navigate through this period.

So to close, our priorities are clear. We rapidly mobilized our team in the face of COVID-19 with our top priority being the health and safety of our employees. And overall, the priorities we reviewed with you at the outlook call remain intact.

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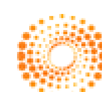

We're facing into our near-term realities while continuing to manage GE for the long term. When the world is facing the worst pandemic in a century, our team is rising to the challenge with humility, transparency and focus. We continue to deliver value for our customers, enabling air carriers to transport essential goods, supplying vital health care equipment and keeping the lights on.

And while there are many unknowns, there will be another side. Planes will fly again, health care will normalize and modernize, and the world still needs more efficient, resilient energy. At the same time, we're embracing this new reality. We're redefining winning, and we're executing our plan. The cost and cash actions we've taken you through this morning are a major result. These moves will ultimately allow us to accelerate our multiyear transformation to make GE a stronger, nimbler and more valuable company, and I am confident that GE will emerge stronger.

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

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

Great. Before we open the line, I'd ask everyone in the queue to consider your fellow analysts again and ask one question and a follow-up so we can get to as many people as possible. Brandon, can you 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 & Managing Partner***

Hope everyone is well. I was hoping you could provide a little bit of color on how you kind of view the -- kind of the asset quality of the contractual service agreements and the like, right? There's a lot of assets there. Obviously, there's at least a temporary impairment of cash flows. How does that test work? Have you done it yet? And are you close to any particular thresholds there that we should be thinking about?

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

Jeff, I think if we look at the service backlog, right, broadly, just under $325 billion for the company. The vast majority of that, $234 billion is in Aviation. I suspect that's where you're most focused. We go through those backlog reviews and the CSA reviews on a regular basis. What we've done here over the last, call it, the last 7, 8 weeks is really tighten and quicken the review process that we do with the businesses, both at Aviation and at GECAS. What we're trying to do is make sure we've got the latest and, if you will, most accurate information possible with respect to customer risk given everything that's going on. So we do that on a regular basis. We did that at the end of the first quarter in closing much as we do every quarter. Clearly, we've got a fluid situation. And I think the modest charges that we took, the modest changes in the first quarter clearly are going to play out as we go through the course of the year. We can't really scope that for you today.

If you look at the CSA book in Aviation, for example, as we went through the mechanics of the future billings, the future costs related to those billings, based on the information at the time, it was really just $100 billion -- $100 million adjustment. Noncash, of course, which is why you see a little bit of the earning cash dynamic. Certainly, as we go forward, we're going to be updating those adjustments and again, we would expect that we would see more of that given what the airlines are doing with their planes. But I think it's important to keep in mind, again, these are 10- to 15-year agreements as you know, and those adjustments are taken in the context of that particularly extended time period.

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

Great. And just as a follow-up, if I could. I know you don't want to get real precise on guidance, but you are pointing us to a further decline in cash flow in Q2, which isn't surprising, quite frankly. But could you bracket that at all for us, what we should expect for Q2? And any high-level thoughts on how the year plays out from a cash standpoint?

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

Yes, Jeff, I think that we took guidance off the table a few weeks back and didn't want to take an attempt at framing formal guidance here today, in light of all this flu, and all is still evolving here. And I think the tack we took was really to try to share as much with you as we possibly could in terms of the April detail business by business and acknowledge that we're going to see a more challenging second quarter here, given the full impact of COVID and the like. But beyond that, I think that's really where we are. We know we've got to get to work on the cost and the cash actions. That's why you see us doubling that activity in Aviation, stepping it up elsewhere, around the company. So the $2 billion of cost, the $3 billion of cash will clearly help us later on in the year as those actions take root. But for today, I think that's really what we're -- that's what we know, and that's what we're comfortable sharing.

Operator

From Morgan Stanley, we have Josh Pokrzywinski.

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

Josh, are you there? Brandon, let's move on and come back to Josh.

Operator

Next question we have from Bank of America, we have Andrew Obin.

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

Good luck to everybody. So run rate, minus 60% in terms of shop visits, 50% on CSAs, do you think you continue to trend at this level in the second quarter? Or is there more downside?

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

Andrew, I think you're referring to Page 9 in the slide deck. Maybe what we're seeing -- yes. I think this is what we're seeing right now, right? And given what the carriers have said publicly what they're doing, we think these are good, likely near end run rates to share with you. Again, we're not trying to offer up a definitive view as to the next several quarters, but this is what we're seeing right now in the second quarter, for sure.

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

And my follow-up question on spare engine sales, I think, minus 60%. Have we lost these? Or will these come back when the situation normalizes? Maybe you can give us some sort of framework how to think about spare engine demand over the next couple of years.

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

Andrew, we were ramping spares with both the LEAP-1A and the LEAP-1B as the narrow-body market was taking off, typical early in the life of an engine activity. We are clearly seeing that soften, not necessarily going to 0 as preparations are being made for a return to service to the MAX, right? I don't think that opportunity is lost. But I think like much of what we're seeing in Aviation broadly, it will be pushed out for a few years. And again, I don't think we're taking a definitive view as to what year, what quarter things get back to, if you will, a normalized 2019 level, but we recognize the discussions out there, about this being a multiyear recovery, gradual, slow. I think we're embracing that reality, and that applies really across the portfolio, both on the OE side as well as the aftermarket spares included.

Operator

From Melius Research, we have Scott Davis.

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

Welcome, Carolina.

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

Thank you.

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

Larry, any way to think about the cost actions as it relates to kind of structural versus more kind of pandemic short-term related?

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

Sure. Well, I would say, Scott, as you well know that when we're in a mode like this, you're moving as quickly as you possibly can almost anywhere that you can. So if you look at what we've announced in Aviation, the doubling of those activities today, the broadening across the company, if you look at the tally today, there is a decidedly short-term bias there that Carolina and I are going to be working with the CEOs over the coming weeks, to transition to a more permanent action, right? If you look at what we did in Aviation, for example, in terms of the temporary lack of works, that was a way to quickly adjust our cost structure in that business on a variable basis to these shockingly fast changes in demand. You might categorize that as temporary. We need to work through the changes on a more permanent basis that are required in light of the length of the recovery that we're looking at.

So we have confidence in these numbers that we're sharing today, the $2 billion of costs, the $3 billion of cash. There's a bit of a tactical bias today, just given how fresh this is but we will be leaning in toward making more of them permanent, recognizing though at the end of the day, there will be a bit of a mix, be it headcount related, discretionary spend on the cost side in addition to some of the working capital and certainly, the CapEx reduction that Carolina referenced, the 25% reduction year-on-year. So a lot going on. And by no means is this -- these headlines today, the end, it's very much a work in progress.

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

Okay. That's helpful, Larry. And when you think -- the $20 billion kind of came to you pretty much about perfect timing. But is that money just sit on the -- does that have to sit on the balance sheet pretty much as is for the year? Can you -- or is it just such a big number, you can start to parse some of it out to thinking in terms of whittling down some of the debt that you can manage?

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

Well, it did come at a good time. There's no question. That's why we put the emphasis in the BioPharma setup on certainty, right? We want to take the market risk off the table relative to thinking through the health care options.

Carolina, anything you want to add relative to kind of managing liquidity versus leverage right here? I think...

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

The -- I think it's important to acknowledge that the world is different now compared to before COVID, and it's very important for us. Of course, leverage is important, but liquidity is more important. And we end the quarter with $47 billion cash, right? And that's really to cover $18 billion of GE and GE Capital long-term debt maturities now through '21. And actually, after the April actions, we are down to $13 billion of maturities for 20 and 21, almost all of that in Capital. And I would also say we expect to have around $20 billion in total credit lines going forward, and that's really in line with our risk appetite. We have the new $15 billion 3-year RCF that I mentioned and $5 billion credit rider will be on $20 billion credit lines. I think we'll just said that we really intend to maintain a high level of cash, I would say, to maximize flexibility. And that's why we're taking these actions also to de-risk our balance sheet and basically, prudently manage our liquidity in this very challenging external environment and time.

Operator

And let's try Josh Pokrzywinski again from Morgan Stanley.

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

Awesome. And hope everyone is well, to echo earlier comments. Larry, can you just give us a sense, and I know you guys have data going back eons in Aviation, how the impact of retirements and cannibalizations kind of make more of a U shape versus what the air traffic may look like? Is there a natural lag between when folks start flying again and when shop visits can happen just as a function of kind of using up some of the run time on otherwise idled assets?

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

Well, Josh, certainly, we have revisited the history. The team is well versed in what we have seen in years past. Not sure we've seen anything kind of on par with this. But there's no question that there's going to be a bias on the part of some as some of these fleet reductions play out to retire some of the older aircraft. And that will factor in to the aftermarket, much like some of the dynamics around green time and how here in the short term, folks try to preserve cash, carriers try to preserve cash in their business. So I'm not sure that there is necessarily an exact model that captures what all the carriers in aggregate are going to do here, a model that offers great precision. I think we do know that this -- that the combination of these factors is going to create pressure for us here in the short term. I think what's most important for our business really is cycles, much more so than revenue passenger miles. And as we see schedules come back, as we work our way through the pandemic, that will put us back on, I think, better footing. But here in the short term, I think we're acknowledging that we're going to see shop visits and CSA billings take on some real pressure due to the downturn.

Operator

From JPMorgan, we have Steve Tusa.

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

In early March, you guys had that slide that showed $2 billion to $4 billion in free cash flow guidance, which is obviously off the table. But you also talked about things growing in '21 and '22, and off that kind of $3 billion base, I think most research and numbers I saw were kind of in that $6 billion range of free cash flow. So kind of growth off of that level. Are we still -- like is -- are your out-year numbers still at all legit? Or is that -- are you kind of withdrawing that long-term outlook as well?

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

Steve, I think we have immediately been focused on taking the right actions, both the cost, the cash, the balance sheet actions here in the short term, in the face of this unprecedented pandemic. We've taken guidance off for the year. We're not putting it back on today just given the undue uncertainty of it all, right? So I don't think we're trying to get out any further than that. I appreciate the question. But I think for purposes of today, we're really just trying to frame for folks what we're seeing. But that said, however long it takes us to work through this, I think we feel very good about our ability to come out stronger and get back on a positive cash flow growth trajectory.

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

Got it. And...

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

Carolina, anything you would add to that?

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

No, I think it's important to acknowledge that by taking out costs now, and part of it being structural, that gives us sort of -- as well as mitigating the decrementals that helps improving the incrementals. The outer years, I mean, that will depend on the recovery on the industries as well. So that's, I would say, almost impossible to speak to today.

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

Right. And I guess, how much on that structural cost side...

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

Steve?

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

Yes, go ahead.

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

Yes, no. I just -- 1 other point I think worth mentioning. I mean, I think what we're acknowledging here is that as this played out in March and what we're seeing already in April, right? It really is hitting us from a mix perspective, hard. Our highest margin businesses are really

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feeling it here. I would think that on the recovery, we would see it swing the other way. When we get back and come off a bottom, we should have positive mix effect really across the board, particularly in Aviation and Healthcare.

Your second question, Steve, was relative to the cost actions and how much permanent, how much not permanent?

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

Yes. I know. I guess, how much is that going to cost you? I mean, like to come up with $2 billion to $3 billion of cost and cash. You've done -- you've cut your restructuring last year pretty significantly, and you did a couple of hundred million in the first quarter. I mean, most companies, kind of one-for-one, what -- how much is this stuff going to cost you this year on a cash basis?

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

Yes. I think what we have said previously, we were going to be down off of last year from an expense and from a cash perspective. I think we're probably going to end up more or less in line, right? Keep in mind that some of the cost actions like furloughs don't carry a restructuring charge with that, right? Because they aren't permanent. So part of what we're trying to do is squeeze out some of the temporary costs. But all the while, if we can make more structural moves, we want to make sure we've got room to do that. But I'd say right now, assume that it would be relatively flat year-on-year. But as Carolina indicated in her remarks, we want to try to do more if we can.

Operator

From UBS, we have Markus Mittermaier.

Markus Mittermaier ***UBS Investment Bank, Research Division - Co-Head of European Capital Goods Research for EMEA and Executive Director***

Let me maybe follow-up on the Aviation within the year. So in your 10-Q, you referenced the IATA numbers of 48%, RPK reduction is -- and I know, obviously, flight hours and RPKs are 2 different stories. But is that sort of, a kind of scenario that you're flying through internally? And I'm just trying to get a sense of what that would mean if we look at our sort of like '19 Aviation cash as a baseline, sort of like, where on that type of scenario we could end up, particularly looking at sort of what you've mentioned in your prepared remarks that you have. I think, 62% of engines still ahead of shop visit one, which arguably are the engines that are on the narrow-bodies coming back first because they're probably the youngest in the fleet. Just trying to get a sense for within the year, how you're thinking about that.

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

Well, I think that given what we highlighted relative to the April experience and a near-term projection of that, there's no question that we're going to continue to see the pressure on cash at Aviation that we've seen here of late, right? And that will be our -- undoubtedly, our biggest headwind.

Markus Mittermaier ***UBS Investment Bank, Research Division - Co-Head of European Capital Goods Research for EMEA and Executive Director***

No, sure. But the shop visits, we heard sort of the numbers that you said, but did you do sort of internal stress tests around where you could end up? Or is that just something that you said, it's too early to comment?

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

No, no, no. There's plenty of planning for, again, an extended slowdown here. We're embracing this reality to the full extent possible. We are not expecting this to bounce back in the near term. So we flag in the Q, the IATA numbers, we also referenced others. You see it in our own departure data here in April, right? We are way down. That has a direct feed in the shop visits, CSA billings and the like. So we're adapting to this new environment, confident that it will recover. So Markus, we're simply not trying to assume that the pressure abates anytime soon, witnessed the cost and the cash actions that we're taking.

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Markus Mittermaier ***UBS Investment Bank, Research Division - Co-Head of European Capital Goods Research for EMEA and Executive Director***

Sure. Okay. No, I appreciate that. And maybe as a follow-up quickly on the Capital side. Do you anticipate any change in the Capital support, therefore, for Insurance, in particular, you referenced that a little bit in the prepared remarks. I think $2 billion is sort of the current number. How are you thinking about that at the moment?

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

On the parent support to Capital and on the Insurance, let's take a step back then. So in '19, the Capital had an infusion from GE of $4 billion, right? And the estimate for this year is $2 billion on Insurance funding. And those $2 billion, that's significantly lower than we had before. We estimated that the parent will need to support roughly in line with this. There's some variables are still open, and that depends on GE Capital itself, right? Between Capital earnings, the LRT, Capital ending asset, liquidity levels, but basically, it's about $2 billion as it looks now. And I would also say going forward, pertaining to your follow up, we do continue to anticipate further funding and that will be, again, through a combination of GE Capital itself with our asset sales, liquidity and the future earnings. And on top of that, possible capital contributions from GE.

Operator

From Cowen and Company, we have Gautam Khanna.

Gautam J. Khanna ***Cowen and Company, LLC, Research Division - MD & Senior Analyst***

Two questions. So at Aviation, it sounds like you guys acknowledge that on the way up, the spares business, the aftermarket, the $15 billion commercial aftermarket business will lag ASM growth because of a younger fleet emerging, a surge of used serviceable material and the like, part outs. But obviously, lower spares provisioning as the OE rates come down 30% to 50%. I guess first question is, when do you anticipate Aviation free cash flow getting to breakeven? Is it even possible before calendar '22 in that type of environment? And then I have a follow-up.

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

I'm not sure we would buy into the premise per se, right? I mean we are a cycles business much more so than any other indicator. And those cycles are going to have to come back before the passengers do. As you indicated, the age of the fleet will help us over time, there could be some short-term headwinds. But we'll see how that plays out. I think what we're acknowledging here is that we've been hit from a free cash perspective in our biggest and best cash generator, at Aviation, but we're really not getting into much more in terms of the free cash forecast on a multiyear basis. It's just too soon. There's just too many moving pieces for us to be that forward-leaning at this point. We wish we could be. It's just not where we are.

Gautam J. Khanna ***Cowen and Company, LLC, Research Division - MD & Senior Analyst***

Okay. And just a follow-up. Obviously, 2020 is a tough year. We're going to have some cash burn. 2021, unclear. But certainly, it doesn't seem like in Aviation, we're going to have a strong recovery. Any -- so as we emerge from this, we're going to have more leverage. And I guess the question is, you guys have made some asset sales to deleverage, what else besides cost reduction can you do to get the balance sheet better, faster? Is there any other things that you guys are exploring or that you might explore that's different than what you've done over the past year?

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

Well, I would -- I'm not sure I would say that there's a lot that is -- no, please, Carolina.

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

Well, I was going to say that to do things that we have done in the last couple of years...

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

Yes. Well, I would just say at a high level, we are committed to our deleveraging target of less than 2.5x on the industrial side. And I think you've seen us make a lot of progress year-to-date, which I hope underscores the seriousness of that objective, both on the GE side, right? I think it's $7 billion of debt reductions in the quarter. And Capital, I think it's up to $10 billion on a year-to-date basis, given some of the

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things we did in April. Clearly, it's going to take us a while longer here to hit those targets, like I suspect most companies. But in terms of doing anything new or different, I think we're going to continue to try to run these businesses as best we can, be as disciplined as we can on the capital front, be smart and thoughtful relative to some of the other obligations like pension, as you've seen us, relative to the plan design and some of the settlement options. So I'm not sure they're necessarily new plays per se, but we'll continue to look at every and every option available to continue to strengthen the company, strengthen the balance sheet, bring those leverage levels down in the face of COVID-19.

Carolina, I'm sorry, I jumped in there. Anything to add there?

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

I would just add that -- to the leverage comment, also the liquidity. That's -- at times like this, you do look at the liquidity. And I think it's important to say that we really want to maintain a high level of cash to maximize the flexibility. And you have seen the derisking activities that we have made to sort of push out the debt in the further years. So we keep optionality.

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

But I think to that, I mean, it's just important for us all to remember, we ended the quarter with $47 billion of liquidity on the back of BioPharma action and some of the other things that we have done. So we'll continue to be nimble and flexible; mindful of our obligations and our reality.

Operator

Okay. And from Barclays, we have Julian Mitchell.

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

Maybe just a question -- first question around the working capital dynamics in the free cash flow at Aviation? I guess there's a lot of industrial businesses, where when you get this rapid sales down draft, you get a working capital cash offset to an extent, and then it reverses whenever the sales come back. Could you just update us on how you see the working capital cash impact at GE Aviation sort of in the early stages now in this downturn, what you would expect to happen to working capital when things recover? And if there's any major difference on the cash dynamics of the power by the hour type service relative to the ad hoc spares activity in Aviation?

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

Yes. With respect to working capital, I think our primary challenge is really inventory at Aviation, right? We came this year knowing we were going to have to adjust to a different schedule with the MAX, chasing the step-up at Airbus with the 320 NEO while dealing with a good bit of past due on the commercial side, both OE and aftermarket, while having pretty good Military demand to contend with. That all gets reset here. And 1 of the real pressures we saw from a cash flow perspective was in inventory at Aviation in the quarter. So that's where we're going to be most focused, trying to make sure that we reduce the delinquencies, adjust to reduce production schedules, the lower aftermarket requirements while continuing to take care of the Military business, that's a complex supply chain undertaking. But the team, as you can imagine, is keenly focused on using some of the lean tools, working with our supply base, to make sure that we not only take the cost out of the business, but bring those inventory levels down in light of current demand.

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

But should we expect -- so I guess, I understand...

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

Sorry, Julian. This -- is there a second part to your question? I may have missed that. I think we're on a little bit of a delay here.

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

Yes. I was trying to understand, I guess, in Aviation, you have the drop in EBITDA in a downturn and the recovery in EBITDA in the early part of the upturn. I was just trying to understand on working capital, is that cash impact countercyclical? Or is it pro cyclical? So you're getting a working capital outflow through the downturn as well as the EBITDA decline.

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

I understand the high level dynamic there that you're alluding to. I think right now, the simple reality of Aviation, given the pressures and the cross current, is that it is a negative and we need to work to improve it. How much of a tailwind could it be kind of at this point in the cycle, I think it's too early to tell. We've got to get on the improvement path first, Julian, to be able to take that potential and deliver it in the financials as a reality.

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

And then my second question was just around the operational issues. So I think it sounds like the cost out tailwind should build through the year. But in Q1, you had some operational issues in power on the service side, steep decrementals, even with the fixed cost down 16%. Renewables, the margins were down despite a big revenue increase. So I guess what's the conviction that operational inefficiencies will not swallow up a lot of these cost savings over the balance of the year?

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

Well, I think you have to take it business by business, right? If you look at what happened in Power, clearly, the push out by customers, because of their own site restrictions and by us on the back of the travel restrictions, really pushed a lot of high-margin revenue out of the quarter and probably out of the first half. That was on top of some cost pressures of our own making, which we need to improve upon. But I think in Power, I believe that the team is doing a very nice job working off the so-called inheritance taxes, driving real cost improvements. You see that in the headcount reductions here in the first quarter. And as we get to a more normalized service environment, I think you'll continue to see that turnaround continue to take flight.

I think in Renewables, Julian, it's a different dynamic. Yes, we had phenomenal revenue growth in the quarter, double the Onshore turbine deliveries here in the U.S. got a little bit better price, about a point of price, which is encouraging to see. But it is, by nature, a very low gross margin business. So the growth isn't high calorie. Unfortunately, we had a few, what we think are one-offs, but they're not one-offs until they go away permanently, cost and execution issues. All the while, the turnarounds in Hydro & Grid are, I think, moving forward, but it's early days. And they have a number of inheritance taxes that will take a few years to work through.

So I think the cost actions that we have talked about today will accelerate those turnarounds in Power and Renewables. They're dealing with different dynamics in the respective businesses. And that's really why I think I have the confidence to say that you should expect the decremental margin sequentially to improve, that the restructuring and the cost actions should present themselves and improve decrementals in the back half. But we've got work to do to make that happen.

Operator

From Wolfe Research, we have Nigel Coe.

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

Carolina, great to see you on board. So look, we appreciate all the color in the slides and the additional color in the queue. So Larry, is it now a base case that industrial free cash flow will be negative and maybe you could just address the risk of significant cash burn this year? Or is there enough on the cost out on the working capital side to maybe mitigate some of that pressure and keep industrial free cash relatively steady?

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

Yes. I think what we're trying to share this morning, Nigel, is that probably 3 things. One, we've been very -- we've been hit hard and fast here, right, in some of our most important, highest margin businesses, be it Aviation, in services particularly, Gas Power Services, PDx and Healthcare. We think that, that gets worse before it gets better, particularly here in the second quarter with a full effect. It's uncertain as to how things play out from here. We're going to acknowledge that uncertainty. Hence, the pulling of the guide. But we're not going to sit back and hope that it all passes. We're not going to take the view that we've got a sharp rebalance coming. Hence, the $2 billion of cost actions we've talked about and the $3 billion of cash actions. We're going to do everything we possibly can to control our destiny here without impairing the long-term value and the long-term trajectory of our company. So we're telling you what we know today. We wish we knew more that is really the state of play right now and the approach, the headset that we're taking to it.

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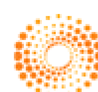

Nigel Edward Coe ***Wolfe Research, LLC - MD & Senior Research Analyst***

Okay. I appreciate that, Larry. And then I thought -- 1 of the real highlights for the quarter was the underlying strength of the Healthcare margins, ex -- even ex-BioPharma, especially given some of the headwinds you're facing there. So we're seeing strength in small equipment and pressure in big iron, how does that mix look though? When you look at the mix on smaller patient monitor and equipment, et cetera, versus the big iron, how does that equipment mix play out to the margins?

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

Well, we certainly -- I think the key thing to keep in mind, Nigel, is -- the big iron certainly got hit. The lower ticket, the lower price points, be it patient monitors, ventilators and the like certainly got quite a boost. But it's a small part of the business. So there was a little bit of mix there, but not a lot. It was really more a function, frankly, of the team doing a nice job more broadly, recognizing that absent BioPharma, we needed to tend to the core cost structure in all its form in the HCS business, right? We've been growing Healthcare, BioPharma leading the way. We got some good margin support from that business the last several years. Well, now as we think about the $17 billion core, the teams really, I think, put their sights the last couple of quarters on growing that business, growing it with accretive margins. And it's really the cumulative effect that I think you see a bit here in the first quarter before we got hit. They got hit a little bit later, not as much. You'll see more of that unfortunately here in the second quarter.

But I think you've got a team who thinks that like many other med tech companies, they can grow mid- or low- to mid-single digits over time and put more digital into the mix. Better costs that should give us the opportunity to grow with accretive margins along the lines of what Kieran laid out in December. And I have no less conviction about their ability to do that today than we did when we made that presentation, again, mindful that we've got some gyrations here in the near-term to deal with.

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

Brandon, we are at the bottom of the hour. So we can just take one more question.

Operator

Sure. From RBC Capital Markets, we have Deane Dray.

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

Wishing everyone good health, and add my welcome to Carolina. Just 2 questions, both Aviation. A lot of discussion about structural cost out. And Larry, I'd be interested in how have you balanced the structural cost out in Aviation with RIFs, and balancing the RIFs and furloughs versus how you might be compromising the ability to bounce back when it does ramp back up. So that's the first question. And then the second one, just to make sure I heard it correctly, were there -- did you quantify the LEAP cancellations in the quarter? I know there's delivery deferrals. Our experience in 2008 was that you did not see many outright engine cancellations because customers would lose that nonrefundable deposit. So what's the expectation here in terms of engine cancellations? That's it for me.

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

Deane, maybe I'll take the first part of that and perhaps Carolina can take the second. I think we are mindful, ever mindful that there will be a recovery, right? And we want to be well positioned for it because it's going to be a very good business for GE, for decades. But I think we are really trying to, again, embrace our reality and take the cost actions in the aftermarket business and more broadly, at Aviation, mindful that we've got a period of time here of an unknown duration, but it's not going to be measured in months, right, where that business is going to be under considerable pressure. So after a period of time, as the aftermarket has grown as it has the last decade, this is going to give us an opportunity to rethink, to consolidate, all the while, mindful of our obligations to customers. The nature of how the footprint has changed, the changes that are probably still coming. So there are a number of variables. It's very much a work in progress as well. But I think we've got line of sight to build on some of the temporary actions to take permanent action, to make sure that we have a lean cost structure with adequate capacity to come out of the downturn here, well positioned to perform, both for customers and for investors.

Operator

We'll now turn it back to Steve Winoker for closing remarks.

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

Do you want me to answer the question on -- second question?

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

Yes, go ahead, Carolina. Sorry, go ahead.

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

Go ahead, Carolina.

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

Yes, I will. Yes, so -- yes, you were right because I actually mentioned that in my notes, that in our backlog, which was flat sequentially and up 22% versus prior year. That did include roughly 200 LEAP-1B units for the cancellations in the quarter. What -- I would say the progress really sounds very small so far. But on top of that, we also saw GECAS, right? So we have GECAS cancellations of 69 aircraft in April. So that will be reflected in the second quarter Aviation backlog.

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

Great. Thanks, everybody. I know it's a long call and a busy day. So if you need more, just reach out to us and best of luck.

Operator

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

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