CORPORATE PARTICIPANTS

H. Lawrence Culp General Electric Company - Chairman & CEO
Carolina Dybeck Happe General Electric Company - Senior VP & CFO
Peter J. Arduini General Electric Company - SVP
Steven Eric Winoker General Electric Company - VP of IR

CONFERENCE CALL PARTICIPANTS

Andrew Alec Kaplowitz Citigroup Inc., Research Division - MD and U.S. Industrial Sector Head
Andrew Burris Obin BofA Securities, Research Division - MD
Anthony Charles Petrone Mizuho Americas LLC - MD of Senior Medical Devices, Diagnostics & Therapeutics Equity Research Analyst
Brendan John Luecke Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst
Charles Stephen Tusia 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
Julian C.H. Mitchell Barclays Bank PLC, Research Division - Research Analyst
Nicole Sheree DeBlase Deutsche Bank AG, Research Division - Director & Lead Analyst
Nigel Edward Coe Wolfe Research, LLC - MD & Senior Research Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the General Electric Third Quarter 2022 Earnings Conference Call. (Operator Instructions) My name is Denise, and I will be your conference coordinator today. (Operator Instructions) If you experience issues with the slides refreshing or there appears to be delays in the slide's advancement, please hit F5 on your keyboard to refresh. 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 Relations. Please proceed.

Steven Eric Winoker General Electric Company - VP of IR

Thanks, Denise, and welcome to GE's Third Quarter 2022 Earnings Call. I'm joined, as usual, by Chairman and CEO, Larry Culp; and CFO, Carolina Dybeck Happe. GE HealthCare's CEO, Pete Arduini, is also here with us to share insights on pre-spin progress and performance.

Keep in mind that some of the statements we're making are forward-looking and 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 may change as the world changes.

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

H. Lawrence Culp General Electric Company - Chairman & CEO

Steve, thank you, and good morning, everyone. We're building broad-based momentum, and GE delivered solid third quarter results with Aerospace leading the way.

Within GE Vernova, Power remains on track to grow this year, and we took significant actions this quarter to reset Renewable Energy for future profitability. And external catalysts, like the recent U.S. climate legislation and the European energy crisis, are increasing investment in new decarbonization technologies, helping position this business for longer-term profitable growth.

Our planned spins are on track with GE HealthCare ready to launch in January and GE Vernova in early 2024. GE HealthCare is in the home stretch now. I'm particularly proud of what they've accomplished: Navigating COVID, bringing in a new CEO and CFO, Carolina Dybeck Happe. GE HealthCare's CEO, Pete Arduini, is with us today to give you a full update.

Now a moment on GE Aerospace. I'm really excited to be leading this exceptional franchise, especially during this unprecedented industry ramp. We have a tremendously talented team, a highly differentiated product and technology portfolio and leading positions in
attractive commercial and military sectors. And we have leaders that nicely balance unparalleled experience and fresh perspective as nearly half are new to their roles in the last year. Our high-caliber team includes Russell Stokes leading our Commercial Engine business; Amy Gowder, who runs our Military business; and Rahul Ghai, who recently joined as CFO.

In that same vein, I’d like to recognize Shane Wright, who’s retiring after 34 years of service. His many contributions across GE and GE Aerospace have been invaluable and helped build a world-class business and team. Shane, thank you.

The opportunity and the imperative to embrace lean more deeply, both within our 4 walls and with our partners, suppliers and customers, has really stood out to me over the last several months. We’ve been taking a harder look at our operating rhythms, moving toward a more frequent weekly and monthly cadence for each of our P&Ls. This has helped us manage the business in real time and deliver better, faster and more efficiently in what is clearly a dynamic environment.

The process capability improvements are real. Taking last quarter’s example, the additional 20% of existing engineers that we reprioritized to support delivery. Through daily management, they’re helping solve problems closer to the point of impact faster, and that’s improving engine deliveries.

Engine output was up double digits sequentially, with LEAP units up over 50% sequentially, a credit to the entire team, especially those in our supply chain organization. However, the post pandemic recovery requires continued sequential improvements for the foreseeable future, which our lean efforts will help us deliver.

We have a similar story in services, where internal shop visits grew 10% sequentially and more than 30% year-over-year. Lean helps us reduce cycle time, improve turnaround time and generate capacity for more. In addition to strengthening our operating rhythms to meet this extraordinary industry demand, we updated our strategic plan last month with an eye toward how we continue to shape the future of flight for years to come.

The quality of our technology and product roads, coupled with the energy and collaboration in the room, have me even more excited about what this business will become when it’s a stand-alone aerospace leader. First things first, of course, with respect to the post-COVID ramp. But this is a business with an exceptional future.

Turning to total company results on Slide 3. Orders declined 7%, driven by a tough comp at Renewables against prior year megadeals in Onshore Wind. Excluding Renewables, orders were up 8% and positive across all segments. Revenue was up 7% with particular strength in services, up 20%.

Looking at the segments. Aerospace and HealthCare were both up double digits as the market recovery continued and our pricing and delivery actions took hold. This was offset by Power down mid-single digits and Renewables down 10%, largely due to lower U.S. volumes resulting from the PTC lapse and our heightened new business selectivity.

Collectively, supply chain and macro pressures adversely affected revenue by about 4 percentage points in the quarter, easing slightly again. Adjusted operating margin declined 190 basis points. Strength at Aerospace from volume and price was more than offset by Renewables, which included about $500 million of higher warranty and related reserves tied to fleet performance, which we’ll address shortly. Excluding this impact, margin expanded by 80 basis points. HealthCare improved sequentially and Power decline year-over-year due largely to planned service outage seasonality.

Adjusted EPS was down. Excluding the $0.40 Renewables reserve, EPS was $0.75. Free cash flow was $1.2 billion, largely driven by strong adjusted earnings. We’ve continued to build inventory as we prepare for the fourth quarter ramp and continue to work through ongoing supply chain challenges. All in all, I’m pleased with how the GE team has continued to navigate a tough operating environment.

And for the year, we’re maintaining our prior outlook for revenue, trending toward the low end of our high single-digit growth range. We now expect 125 to 150 basis points of operating margin expansion and $2.40 to $2.80 for EPS. This is primarily driven by the higher warranty and related reserves at Renewables this quarter. And aligned with the color we shared in the second quarter, we’re expecting
free cash flow this year of about $4.5 billion.

Turning to GE Vernova. Power is a stable cash generator, as gas utilization grows, our ongoing focus on services at Steam take root, the continued turnaround progress at Power Conversion and innovation at Nuclear.

Now more on Renewables, where we've all been disappointed with our year-to-date performance. Our proven leadership, with Scott Strazik and his team at the helm, is leveraging the lessons from their Power playbook to transform Renewables' fundamentals. Let me break down how we're going to improve performance there. Recall, we look at this in 3 parts: Onshore Wind, Offshore Wind and Grid. I'll take those in reverse order.

Grid is a $3 billion business which will be the first to profitability. Market demand in automation and hardware remains strong. This year, we expect double-digit orders growth, and thanks to our cost efforts, significant margin expansion; along with profitability here in the fourth quarter, setting up 2023 as a profitable year for grid.

At Offshore, we're transitioning from a new product investment into a business with roughly $1 billion of revenue, and growing. The roughly 80 turbines we installed and commissioned for EDF recently were on schedule. And we're now shifting to the 7-gigawatt Haliade-X backlog, knowing our initial 200 deliveries will be challenging financially in an inflationary environment. But as we move to the next tranche of projects and reduce cost, we expect to approach profitability in Offshore in the mid-20s.

Finally, Onshore is a $9 billion revenue business, more than 60% of the segment today and most of the operating loss. This is the battleground. Overall, for Renewables, we expect to achieve profitability in 2024.

We've quickly innovated in the fast-growing onshore wind industry, introducing larger turbines to provide leading performance and competitive project economics for customers. Since 2017, we've added over 40 gigawatt to the grid, increasing megawatt hours per turbine significantly. However, like much of the industry, such rapid innovation strains manufacturing and the broader supply chain. It takes time to stabilize production and quality on these new products, which in turn pressures fleet availability. We need to industrialize faster to counteract these dynamics, and we are.

First, we're drastically simplifying and standardizing too many variants into what we call workhorse products, so we and our suppliers can implement more repeatable manufacturing processes. This enhances product quality and reduces cost. In our existing fleet, we're deploying corrective measures, enhancements and monitor and repair programs to deliver high 90s availability consistently. We expect to implement the corrective measures associated with these warranty and related reserves over the next couple of years. With fleet availability as our true north, we'll continue to be a leader and deliver for our customers.

Second, as we've talked about in the past, we're being more selective about where we play, going after fewer markets where we have the right product and service capabilities and can execute profitably, including focusing more on equipment-only projects. We're also seeing improvement in both orders and sales pricing.

Third, we're reducing fixed costs. We're decreasing global headcount in Onshore wind by about 20% and more broadly delayering at Renewable Energy. Across GE Vernova, we're expecting about $500 million of annualized savings from a $600 million restructuring program we plan to implement over the next few years.

Reflecting on the broader market. When we spoke just 90 days ago, the prospect of significant U.S. climate legislation this year was unlikely. Recent months have been game-changing. The Inflation Reduction Act provides much-needed certainty and stability for us and our customers, especially in onshore wind. The bill's $370 billion in tax credits over the next decade aligned tightly with GE's decarbonization technologies. Additionally, the Infrastructure and Investment Jobs Act provides at least $75 billion for investment in grid, nuclear and breakthrough technologies.

In Europe, we're seeing more urgency and pragmatism to reduce emissions and make energy more resilient. Take the new European taxonomy which reinforces the important role of gas and nuclear alongside renewables. As Europe looks to swiftly address energy
security concerns, customers want to engage GE's full technology road map, including wind, gas fuel blends and grid.

While these external catalysts won't factor into our results overnight, they improve the demand and economic profile for our businesses remarkably. To that end, we see a robust future in contrast to the current orders troughed. Altogether, we're at a significant inflection point for onshore and Renewables overall. While we expect Renewables to achieve profitability in 2024, a about a year later than planned previously, we remain very excited about GE Vernova's future.

With that, let me hand it over to Carolina.

Carolina Dybeck Happe General Electric Company - Senior VP & CFO

Thanks, Larry. Turning to Slide 5. I'll share the insights from the quarter on an organic basis. While orders were down 7%, revenue was up high single digits with double-digit growth in Aerospace and HealthCare. Equipment declined 6% with continued U.S. Onshore volume pressure and a largely planned decrease at Power. On a sequential basis, revenue increased more than $0.5 billion as we're making progress on our second half ramp.

Services were the bright spot with orders and revenue up double digits and growth across all segments. Aerospace led the way with orders up 28% and revenue up 33% as market demand remained strong. Recall services represent half of our revenue and an even larger percentage of our backlog.

Overall, adjusted margin contracted 190 basis points. This was largely driven by the Renewables reserves which impacted margin by 270 basis points. Meaning, if we exclude this, margin would have expanded 80 basis points.

Our actions are taking hold, and we are seeing early signs of supply chain easing. Volume, together with price, contributed almost 300 basis points of margin expansion, offsetting headwinds from inflation and logistics costs. Aerospace was a major contributor, up 280 basis points with strength in services.

Adjusted EPS was down $0.18. Excluding the renewables reserves, it would have been up $0.22. Continuing EPS was negative, primarily driven by an insurance transaction, which I’ll cover momentarily, and increased separation costs, as expected.

Regarding our updates to the margin and EPS outlook. We are now including additional pressure from the elevated warranty and related reserves at Renewables. About half of this charge is incremental to our prior view. We also expect to offset HealthCare pressure largely due to inflation and investments with strength in the other businesses.

Moving to cash. We generated free cash flow of $1.2 billion. Strong adjusted earnings contributed to this. Working capital, again, had a very limited impact on free cash flow despite high single-digit growth this quarter.

Looking at the dynamics. First, receivables, the use of cash. Our terms were focused on collecting the accounts receivable from second quarter, improving year-over-year DSO by 2 days. But deliveries continue to occur later in the quarter, resulting in high quarter-end receivable balance. Inventory was also a use of cash. This is typical as we build for significant fourth quarter volume, leading to inventory and accounts payable growth. Progress was a source mainly due to the timing of down payments. Contract assets was also a source. Continued strength in Aerospace and Gas Power utilization drove billings.

AD&A was positive $300 million. Given the year-to-date impact and our fourth quarter estimate aligned with the current airframer aircraft delivery schedules, we now expect full year AD&A flow to be about 0. Year-to-date, free cash flow is approximately $500 million.

In the fourth quarter, we expect higher collections given the large receivables balance and reduced inventory due to the strong quarterly deliveries. So in line with typical seasonality and our operational efforts, fourth quarter cash flow will be significantly higher, and we expect free cash flow of about $4.5 billion for the year. This is aligned with the color we shared last quarter.

Now a moment on corporate. Adjusted costs were down over 50% year-over-year. This was primarily driven by lower EHS and other costs.
and progress in functions and operations. For the year, we expect corporate costs of less than $700 million, which includes a few hundred million of favorability primarily from interest rate and FX dynamics.

As we prepare for the planned spin of GE HealthCare, we’re looking at our corporate costs to ensure what remains is sized appropriately. Therefore, we plan to take restructuring actions to reflect today's reduced need for corporate-led activity and footprint. The program is expected to deliver roughly $450 million in annualized cost-out over the next few years with about $700 million of expense, the majority in the fourth quarter.

At Insurance, we further derisked our portfolio by terminating several reinsurance contracts. This reduces counterparty risk and improves administration, settling our receivable from the reinsurer in exchange for $2.5 billion of assets that we can deploy in our current investment strategy. Given the assets need to be transferred at fair market value and the current rate environment, this was an after-tax charge of roughly $300 million. We expect to recoup this over time as the assets mature. While excluded from our adjusted results, Insurance net income was roughly $250 million loss. And without the charge, was approximately positive $80 million.

This quarter, we also completed our annual LRT. As expected, this resulted in a positive margin with no impact to earnings. And this, for the third consecutive year.

In discontinued operations, we recorded charges of about $100 million in our runoff Polish BPH mortgage portfolio, primarily driven by unfavorable results for banks in ongoing litigation with borrowers. This brings total litigation reserves related to this matter to approximately $1.1 billion.

Now turning to our businesses. Aerospace. Aerospace delivered a very strong quarter. Orders growth of 6% was driven by Services, while Equipment orders were down against a tough comp, especially in Military. Revenue was up 25%, led by substantial growth in Commercial Services, up 47%. This was driven by internal shop visit growth, strong spare part sales to our external MROs and favorable price. Commercial Engine revenue also grew significantly on higher shipments, both year-over-year and sequentially.

LEAP shipments improved, up over 100 units sequentially, and we're starting to see better flow through our factories. Military revenue was down year-over-year, driven by lower shipments and engine mix. However, tangible improvements on T700s helped drive a sequential increase in engine units.

Segment margin expanded 280 basis points, driven by Commercial Services growth and favorable price/cost. This more than offset negative mix from higher Commercial Engine shipments and increased growth investments. Based on strong year-to-date performance and continued improvement in services, we expect full year Aerospace margins to be high teens with greater than 20% top line growth. Overall, Aerospace’s strong market growth and business fundamentals reinforce the significant long-term opportunity here.

Turning to Renewables. Orders were down 40%. Recall, we had record orders last year due to Offshore where the project-driven profile remains uneven, making this a difficult comparison. Importantly, services, excluding Repower, grew double digits. And all Grid product lines grew.

Revenue declined 10%. Over 2/3 was driven by lower U.S. volume at Onshore from the PTC lapse and our heightened new business selectivity. This more than offset Services growth of 40% and better pricing across many businesses. Segment margin declined significantly year-over-year, primarily driven by the warranty and related reserves at Onshore. The remainder of the decline was driven by lower U.S. volume at Onshore and net inflation pressure in all businesses. Excluding Onshore though, all businesses improved reported profitability year-over-year.

While we previously included about half of this elevated reserve in our full year expectations, the incremental impact this quarter is pressure versus our prior view. We now expect an annual loss of about $2 billion. The IRA is a significant catalyst, medium to long term. However, near term, customers continue to defer investments into the future, impacting orders and associated cash.

While 2022 has been disappointing, the actions we’re taking, combined with the external catalysts we’ve discussed, puts us on a much
stronger footing as we head into 2023.

Moving to Power. As expected, we're managing through a lower CSA outage year, typical third quarter seasonality and second half timing dynamics for some equipment deliveries and service outages pushed to the fourth quarter.

Looking at the market. Global gas generation and utilization grew mid-single digits year-to-date, with strength in Europe and in the U.S. While we continue to monitor gas prices and availability, gas remains a fuel of choice on dispatch curves globally to meet growing electricity demand.

In the third quarter, orders were up 20%. This was driven by higher HA and Aeroderivative units as gas and services growth in all businesses. Importantly, our team continues to prioritize disciplined underwriting and project selectivity as we build our installed base pipeline. And as we've said, equipment orders remain uneven quarter-to-quarter.

Revenue declined 5%, primarily driven by Gas equipment and Steam, where we continue to exit our newbuild coal business. We shipped 2 fewer HAs and 2 fewer Aero units year-over-year. Meanwhile, services grew 6%, driven by Gas, where price and transactional services growth offset the lower expected CSA outage volume.

Segment margin declined 100 basis points. This was mainly due to lower CSA outages and unfavorable equipment mix at Gas together more than offsetting the price escalation. At Steam, margins continued to improve, driven by selectivity and the associated cost-out.

Looking at the fourth quarter. We continue to expect significant sequential and year-over-year growth in equipment and services. This sets Power up to deliver its outlook of low single-digit revenue growth and margin expansion. And Power remains on track for earnings growth and cash generation this year and next.

Now I'm happy to welcome Pete, who will cover GE HealthCare.

Peter J. Arduini General Electric Company - SVP

Thanks, Carolina. It's a pleasure to join you and Larry on the last earnings call before GE HealthCare's planned spin, which is on track for the first week of January.

Our team has made excellent progress preparing GE HealthCare for its future as an independent public company. We achieved several milestones in recent months, including establishing our Board of Directors with deep healthcare expertise, diverse leadership and financial experience. I look forward to working with them as we hit the ground running together in GE Healthcare's next chapter of growth and value creation.

Another key step in the process was our public Form 10 filing. This important disclosure details our historical and pro forma financials for GE HealthCare at both the segment and total company level. We also disclosed our planned capital structure. We expect our go-forward financial policy will incorporate a strong investment-grade rating for the company. And while we expect to prioritize deleveraging near term, we believe our solid financial position provides us significant flexibility to continue to invest in the business.

We'll share more on our strategy at our December 8 Investor Day. My senior leadership team and I look forward to meeting with many of you and discussing our vision as we work to drive better outcomes for patients and productivities for customers in the years ahead.

Moving to our performance. Overall, GE Healthcare delivered a strong quarter with sequential improvement. Top line growth across the business reflects the tireless work of our teams and partners to address supply chain constraints and improve product fulfillment. Market demand and backlog conversion remained positive despite inflationary and supply challenges that continue to impact the industry.

We're speaking with our customers regularly and watching their behavior closely. They have been impacted by higher costs, particularly around labor. This makes the imaging and ultrasound products we provide more important than ever based on their ability to deliver increased productivity for providers.
Looking at customer trends. Global public spending in healthcare is solid, particularly in Europe and Asia. In the U.S., customers are taking a more cautious approach as they monitor the economic environment.

Overall, continued patient demand is leading providers to invest in products and services that increase productivity and reduce operating cost, an important dynamic as healthcare systems modernized post-pandemic and prepare for increased demand longer term. That said, we're keeping a keen eye on provider performance and procedures, which continue to improve sequentially.

Looking at the quarter. Orders increased 4% year-over-year with sequential growth. Service is strong, up low double digits. Equipment was negative due to our reclassification of certain upgrades from equipment to services, plus a tough comp year-over-year. Organic revenue was up 10% year-over-year with sequential growth. Equipment and Services were both up low double digits year-over-year and Imaging and Ultrasound were bright spots. Currency negatively impacted reported results by 5 points.

Near term, we're focused on commercial execution improvements and NPI launches. Notably, GE HealthCare recently topped the FDA's list of authorized artificial intelligence and machine learning-enabled medical devices. Our commitment to innovation continues, with quarterly R&D spend up double digits year-over-year, helping us accelerate our long-term growth plans.

Segment margins declined to 15.4% year-over-year due to ongoing supply and inflation impacts. Sequential margins have improved since the first quarter, driven by higher volume, price and a continued focus on reducing costs. We've now delivered 2 consecutive quarters of positive price and orders price which also remains positive.

We've been offsetting supply constraints by embedding Lean throughout our business. One way we monitor supply dynamics is through red flags, identifying lines of -- at risk of a shortage if not replenished within 10 days. And these have declined nearly 40% since last quarter. We've also broadened our supply base and requalified and redesigned over 7,000 parts, driving positive results. While challenging, we expect supply chain pressures to improve for the remainder of '22 and into '23.

With the spin approaching, we thought it would be helpful to provide some color on GE HealthCare's cash performance. Keeping in mind our customer needs, we work with suppliers to stock up on critical inventory year-to-date and continue to manage inventory in an inflationary environment. In total, our quarterly free cash flow grew slightly year-over-year and sequentially. Our actions leave us confident that we can meet fourth quarter customer demand.

For the full year, we still expect mid-single-digit revenue growth. At the same time, higher inflation, currency and investments are impacting operating profit, which we now expect to be $2.6 billion or more. And we expect free cash flow in a range of $2.1 billion to $2.3 billion, based on the higher inventory build to meet demand in the fourth quarter and into 2023.

In closing, our team is highly energized as we approach this new chapter. We're confident, and the planned spin will unlock significant shareholder value, enabling us to prioritize R&D investment, grow faster and optimize our operating model.

And so with that, Larry, I'll hand it back over to you.

H. Lawrence Culp General Electric Company - Chairman & CEO

Pete, thank you. I share your excitement. I think we're going to have some fun.

I'd like to close on Slide 12. GE continued to build momentum in the third quarter. Aerospace delivered a very strong quarter. Renewables is taking action to reset for profitable growth. Power remains on track for stable earnings and cash. And HealthCare, as Pete just outlined, improved performance.

Lean and decentralization are the key enablers of this momentum, driving safety, quality, delivery and cost improvements which serve as the foundation of all we do at GE. And these improvements are sustainable. Take my 2021 kaizen week team at Lynn. 1 year later, the team has enhanced our closed-loop machining process on the T700 midframe. Now while there's always more to do, this process is
delivering close to 100% first-time yields compared to about 60% previously.

Real lean sticks, and we're scaling it across lines, sites and businesses. And with that Lean foundation, GE continues to lead with innovation. At Aerospace, we completed testing on our second XA100 adaptive cycle engine, partnering with the U.S. Air Force. It's an innovative engine that pairs power with efficiency.

HealthCare made further progress in the home care space, expanding its AliveCor relationship and announcing a new collaboration with AMC Health to enable remote patient monitoring.

And Power secured an order from Kindle Energy to provide HA class power generation equipment. This will help support Louisiana's ongoing energy transition, initially fueled by natural gas, with the ability to use up to 50% hydrogen by volume.

It's clear our businesses are creating a smarter and more efficient future of flight, driving decarbonization through the energy transition and enabling precision healthcare. And we're set to unleash their full potential through our plans to launch 3 independent investment-grade industry leaders, starting with GE HealthCare in just 2 short months.

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

Steven Eric Winoker General Electric Company - VP of IR
Thanks, Larry. (Operator Instructions) Denise, can you please open the line?

QUESTIONS AND ANSWERS

Operator
(Operator Instructions) The first question comes from Nigel Coe from Wolfe Research.

Nigel Edward Coe Wolfe Research, LLC - MD & Senior Research Analyst
So quick -- I'll keep the one question. On the Renewables, I just want to confirm the charge in the quarter. That's sufficient to cover the entire scope of the work that needs to be done? And my real question is on the restructuring charges you've laid out. Is that sufficient to return the business to breakeven or better with stable markets? Or do we need the U.S. Onshore market to recover to get back to profitability?

H. Lawrence Culp General Electric Company - Chairman & CEO
Nigel, let me take that in order. I think what we have laid out today, what we've been working on all year, really puts us in a position for Onshore Wind to be profitable in 2024. That's not the end state, but it's an important waypoint for us, given recent performance, obviously.

The charge that we're taking here, the $500 million, is geared toward resolving the fleet availability issues that we've touched on. I think that gives us ample room to tend to what we need to deal with and move forward from there. That not only helps us with fleet availability, but the other design and manufacturing improvements we referenced, in addition to the restructuring, are what really set us up to be more profitable, and -- to be flat out profitable in 2024. So next year will be another year where we'll probably have parentheses around the op profit numbers, but then we get to where we need to be in '24, and we'll move on from there.

We really aren't expecting, in the short term, Carolina touched on this, meaningful help from the IRA. In fact, we're going to -- we've seen some business move from '22 to '23 as a result of customers taking a pause, waiting for the incentives that they will enjoy in all likelihood next year in a way that they couldn't access this year.

But we've never had more clarity. We've never had, I think, better visibility about U.S. government support for onshore wind than we do now for the rest of the decade. But none of the operating actions that we've highlighted here are relying on that legislation. Remember, we didn't think that was going to happen when we talked to you in late July, right? That was a pleasant third quarter surprise. So
everything we've been doing operationally is geared toward a lower level of volume, profitability in that context. But the Inflation Reduction Act just, I think, improves the prospects for this business for a decade meaningfully.

Operator

The next question comes from Anthony Petrone from Mizuho Group.

Anthony Charles Petrone Mizuho Americas LLC - MD of Senior Medical Devices, Diagnostics & Therapeutics Equity Research Analyst

Congratulations to the team on getting to -- close to the first spin with GE HealthCare. So this question will be for Pete and Helmut on the call.

Pete, just as we head into spin here, we've had a number of companies in the medical device space report already as well as several large hospital customers. And I think I would classify the environment right now is highly mixed. And still a lot of variables out there, certainly as it relates to 2023. Specifically, last week, we had 2 large hospital operators elect to not issue guidance. On the flip side, some of the medical device companies have actually posted slightly better procedures. Turning to the GE HealthCare business sequentially, it actually looks like orders improved a bit.

So with that as context, maybe just your background as the company speaks to its hospital customers. And maybe just a very early view on your high-level thoughts on 2023. Congratulations to the team again.

Peter J. Arduini General Electric Company - SVP

Anthony, thanks for the question. Yes, look, to your point, as I mentioned in the prepared comments, actually Q3, we see a positive global growth market, backlog, price improving. But we are watching this evolving environment, particularly in the U.S. The public markets outside of the U.S. and EMEA and Asia, particularly China, there's actually a reasonable amount of stimulus money or post-COVID investment that's going in to increase growth.

But we see the patient demand from some of the different reports that's out on The Street, both from med tech as well as other providers to be showing incremental growth. Obviously, there's been some increases in cost of labor, but that seems to be subsiding.

And so I'm out pretty regularly speaking with customers, and we still see a reasonable amount of pent-up demand within the system. I think we all realize that year-over-year, '21 to '20, it's actually a tough comp. It was a pretty big recovery in procedures as well as equipment growth.

And so we're still seeing -- if you look at a 2-year stack, we're still seeing double-digit growth versus '20 and '19. So keeping a sharp eye on it for sure. Look, relative to '23, we'll obviously talk a lot more about our strategy on December 8, and then we'll plan to talk about our guidance in our normal time periods at the end of the Q4 announcement. Thanks again for your question.

Operator

The next question comes from Andy Kaplowitz from Citigroup.

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

So cash in Q3 was higher than your own expectations coming in, but you mentioned that you're planning to take, I think, $1 billion plus of additional restructuring between Corporate and Vernova, the majority of the corporate restructuring in Q4. So how do we think about the rightsizing of your businesses in the context of cash?

And I know you've really said you need to assess what your cash generation would look like versus that old $7 billion plus guidance for '23. But could you give us more color into the puts and takes of how to think about cash going to '23 versus the $4.5 billion this year?
Okay. So to be sure I understood the question. So you’re talking about how we get to the cash in 2023. Okay.

So we’ve talked about the different businesses and where we are. Just to comment on the restructuring. So the restructuring that we take this year, you are right, that cash will impact 2023 and probably also 2024. But that said, with where we are now, we have strong momentum going into 2023, and we’ve talked about us expecting a significant improvement of both profit and cash for 2023, and that still holds.

You look at it business by business. Aerospace clearly on a big rebound from COVID and an unprecedented ramp which will continue in the next year. We have HealthCare, Pete just mentioned that still strong orders and executing on the backlog, so that will continue to go into 2023 as well.

On Renewables, as we take the charge is one thing, but we will also expect to start to see the impact from both the improved availability on our products as well as the cost-out that we mentioned earlier today. So you'll start to see that improvement. And then for Power, I would say we expect services to continue to grow, Steam continue to improve, grid being profitable.

And you put all of that together -- and I would add to that also the working capital opportunity with reducing inventory and ARs. Put all of that together and you're going to see a strong improvement in 2023.

And Andy, I think our current intent now that we have just come out of our strat plan cycle and are heading into budgets here over the next several weeks, is to effectively do what we've, I think, done in the last several years and provide that forward-looking outlook, cash and everything else, at fourth quarter earnings in January.

Brendan, I'm sorry, could you ask the last part of that again, please?

Brendan, I don't think so whatsoever. I think that in many respects, one could argue that it has been the pursuit of scale that has led us in part to our current underperformance. We have led the last several years, as you know well, here in North America, in the U.S. It's a market where we've got a home field advantage. It tends to be one of the better geographies in the entire onshore wind space.

And I think all you're really seeing is due -- with respect to the restructuring, the selectivity efforts and the change in our product road maps is to really make sure that we are in a position to lead through this orders trough, particularly in North America. But come out of it not only with better products, better value propositions, better cost structures, but ultimately better performance as we move forward here, both for our customers and investors.
I don't think that anything that we're doing here does anything to undermine our competitiveness. I would argue it will enhance our competitiveness, particularly at a time when I think many customers are looking forward here when the IRA kicks in, and we're going to go quickly from a trough period to a time of scarcity, where it won't be about one-upsmanship or specsmanship, it will really be about reliability.

We're going to lead in that fashion. We can be better than we are today. And I know that's what Scott and the rest of the Onshore Wind team are committed to. It may mean that we don't play in as many markets as we have historically. I think that will be a good thing because we have no intention of being all things to all people in any of our businesses. That's particularly important in Onshore Wind.

I think it's part of what you've seen Scott and the team do effectively in running what we refer to as the Power playbook as they've transformed that business. And that's certainly going to be an important part of the program in onshore wind, and frankly, more broadly across Renewables. But it's particularly acute given the relative size of the operating loss today in Onshore.

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

Maybe just a little bit more color on Aero. Just a couple of things jumping out to me here today. I think originally, we started the year thinking AD&A would be kind of $1 billion-ish headwind, and we're at 0 now for the year.

And then also just looking at the aftermarket, right? I don't expect you to speak to your competitors necessarily, but Collins and Pratt posted 23% to 25% aftermarket growth here. Your spares number is up 52%. So I wonder if you could just address both of those. What -- how we should expect AD&A to maybe track into 2023. And if there was anything kind of unusual in timing, particularly in the Spares business.

H. Lawrence Culp General Electric Company - Chairman & CEO

Jeff, maybe I'll take the latter, and I'll let Carolina speak to the former. But I think you're exactly right in terms of what we're seeing in Aerospace, right? I mean, overall revenue is up 25%. The business just is facing, welcome after the COVID drought, incredible levels of demand. We know we're going to continue to see that in the fourth quarter and in '23.

I think from an aftermarket perspective specifically, we've got a number of things that really helped us not only from a volume, but frankly, from a margin and cash performance this quarter in the aftermarket. Shop visits were up year-over-year, and sequentially, the scope within those shop visits was more robust. We saw a favorable mix with respect to our parts business as well, really, I think as we and our partners, in service to the airlines, are trying to keep the current fleet in the air as much as we possibly can.

So a little bit of the tempering with respect to the fourth quarter margins is that we see some of that mix moving it the other way. It will still be, I think, a more than respectable second half, but we benefited a little bit in the third quarter. We'll probably give up some of that in the fourth.

But that said, I think the operating mindset that we have is really to continue to drive shorter turnaround times, higher on-time delivery and really do all that we can to help the airlines meet what has been clearly a quite robust demand on the part of the flying public. And having been with a number of these customers recently, not only the airline leadership, but a number of others in the travel and leisure hospitality spaces, they're excited about the end of the year outlook here and going into '23. So we want to be part of the solution in that regard, and we're obviously well positioned to do just that.

Carolina, AD&A?

Carolina Dybeck Happe General Electric Company - Senior VP & CFO

Yes. So Jeff, on AD&A, you're right. When you referenced the $1 billion of headwind year-over-year, that's comparing '21 to '22. So in '21, we were $0.5 billion positive. And if -- we were expecting to be about $0.5 billion negative in 2022.
The way it has panned out is that, in the third quarter, we had about $300 million of positive flow, which gets us sort of year-to-date still negative. But if we put the full year 2022 now, our latest expectation is that we will be flat in year flow.

If you then look into 2023, we do expect the airframers to continue to deliver aircraft from inventory. So that will be then a headwind for us with the outflows. But we also expect the engine deliveries from us to provide some -- I would say, some offset to that number. And exactly where that lands, we’ll talk to you more about when we guide for next year.

Operator
Your next question comes from Nicole DeBlase from Deutsche Bank.

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

Just on the Vernova spin. Now that you guys are kind of expecting Renewables to still have parentheses around the profit number in 2023, does that change at all the potential timing of the spin? Just thinking about the rating agencies and how you guys want to be investment grade rated in all of the businesses, would it benefit that business to start to see positive profitability before the spin actually is consummated?

H. Lawrence Culp General Electric Company - Chairman & CEO

Nicole, we're, again, very much on track not only with the HealthCare spin with Pete and team here early in the new year, but Vernova in early '24, just as we laid out last November.

I think you're spot on. We aspire to have all 3 businesses be investment grade as we move forward with the plan. And that framework, that commitment, very much intact. Which is why I'm excited about both what we're doing operationally in terms of controlling the controllable, and we've touched on that a couple of times relative to our product strategy, the fleet availability effort with the charge today and obviously the restructuring. That, coupled with the legislative support that we're seeing here in the U.S.; and clearly the enhanced concerns around the energy trilemma, particularly energy security in Europe, I think, bode very well for Renewables and all of GE Vernova, right?

We do a lot of things. And I think increasingly, as we talk to customers, particularly in this environment, our strategy, our breadth to help them navigate sustainability objectives, security, let alone affordability concerns, couldn't be more timely. So I think we feel good about those things within our control. Wish the print were otherwise. But I think it's very much an investment in the trajectory of this business, which, again, will be an investment-grade business. So very much on track.

Operator
Your next question comes from Steve Tusa from JPMorgan.

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

So Carolina, you were out in mid-September talking about cash that was close to breakeven. I mean, what's the -- what was the swing factor in the last couple of weeks of the quarter?

And then just a quick one on HealthCare. What are you guys planning on doing with the proceeds or the stock that you're keeping on your balance sheet after the spin?

Carolina Dybeck Happe General Electric Company - Senior VP & CFO

Thanks, Steve. So yes, if I compare to where we were in Laguna, well first of all, I'd like to say that I'm really proud of how the teams came together and performed to deliver this $1.2 billion of free cash flow in the quarter.

And I would say, overall, the dynamics did play out as we've talked about them. The receivables were pressured, and we did see month 3 billings being higher than we would have wanted, pushing collections to the following quarter. And we also had elevated material purchases to derisk the fourth quarter delivery, and you see that on the inventory.
What was better than anticipated, a couple of things. We saw stronger Aerospace performance, higher earnings. And then you know it's going to be about services, so better services and especially on the spare parts side. Then we also saw even stronger utilization, both on Aero engines and Gas turbines, and that drove higher billings and higher collections, and you can see that on contract assets.

We're also working to have more rigor on receivable daily management, and we actually managed to collect more than we thought. So we reduced DSO by 2 days year-over-year, which was better than we thought across the businesses.

And then finally, on AD&A, the aircraft deliveries pushed relative to the forecast, which really -- well, that's a positive impact for us on our numbers. So overall, that's what got us to $1.2 billion of free cash flow, and that's also part of what gives us confidence in reiterating the guide of $4.5 billion of free cash flow for the full year.

Your second question was on the HealthCare proceeds. So yes, we've talked about that spin, that we would keep a part of HealthCare. But it's too early to say what we're going to do with that. We are -- we have a capital allocation framework and a capital iteration structure. So in due time, we'll come back to that and share more.
you're going to see more of that accelerate into Q4 and to the next year.

But the majority of it is really liquidating it here with the commitments that we have and as the supply chain improves, which we are seeing quarter-over-quarter.

Steven Eric Winoker General Electric Company - VP of IR

Denise, let's try to get in 2 more questions. A quick one first from, I think -- can you go next?

Operator

The next question comes from Julian Mitchell from Barclays.

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

Yes, I'll try and be quick, per Steve's comment. It's really on Vernova. Just any color around the cash flow this year and where that will look in '24.

And then on that EBIT guide, I think minus $2 billion Carolina had mentioned for this year going to 0-plus in 2024. A big -- what are the big swings? I think there's $500 million of cost-out, there's maybe $700 million, $800 million of warranty coming back. How does that balance split? Any color at all? Volume, price cost, FX? Any help on that?

Carolina Dybeck Happe General Electric Company - Senior VP & CFO

So Julian, well, you mentioned a couple of the most important ones to start with. So as we're working through, the restructuring is one piece of it. But also the sort of the workhorse and the industrialization will help improve the products, and also how we install the product. So you put all of that together, you will see improved profitability. And of course, you won't see the recurring -- you won't see the charges that we take this year going forward. So we do see some cash pressure in, I would say, 2022.

But for 2023, if you think about it, you have Grid positive and you have a significant improvement on the Onshore Wind side. You have, I would say, the continued decentralization and the restructuring actions there. So you put all of that together, you will see a significant improvement in 2023 and that moving on then into 2024.

And in 2024, basically, the restructuring is completed. You'll see the full benefits, and we expect to see a big IRA demand volume coming through. Some of them, probably end 2023, but the majority of that coming in 2024. And with those -- with the new orders, you get progress payments as well. So that's how you step sort of through '22, '23 to '24 on profit and also on cash.

H. Lawrence Culp General Electric Company - Chairman & CEO

And I think, clearly, Julian, we're feeling the other side of that in the absence of a healthy order book with the PTC lapse all the more, given some of the postponement that we've seen here of late relative to business we anticipated this year.

But I think Caroline has got it right. We'll be in a more normal environment in terms of the order book and the attendant flows. I also think some of the product rationalization that we've hit on will help us from a working capital perspective as well, right, with the -- just the variance in the extreme customization that we've fallen to in a couple of areas. There's no way that hasn't had us carrying more inventory then we aspire to carry in this business.

So a lot that we can do. But again, I think the template that you've seen over the last several years at Power is a pretty good road map here for what we are working on and what you'll see more clearly in the financials in that business in the next several years.

Steven Eric Winoker General Electric Company - VP of IR

Great. Denise, last question, please.

Operator

The next question comes from Deane Dray from RBC.
Larry, could you give us an update on the '23 planning cycle? You said the strat plans have been done, you're in the budgeting process. What's the macro you're assuming? I know that's -- it's pretty fluid here. And how would you describe the recession playbook for GE? I know you got 30 platforms, it's not cookie cutter. But any color there in terms of the resilience of the portfolio would be helpful.

Deane, you're exactly right. We've just been through a couple of weeks with Vernova, in fact, just given the breadth of the portfolio. Timely, obviously, in the wake of not only what's happened in Ukraine and in turn Europe, but also the IRA. We recently did the same with the Aerospace team. I think I referenced that in the prepared remarks. We actually ran through the HealthCare strat plan earlier in our calendar than is normal simply to make sure we have that as a front-end load to all the subsequent work that Pete and the team have done, in part, the Form 10 that just came public.

I would say overall, from a process perspective, really quite pleased in all 3 instances as to how far we've come over the last several years, frankly, just sharpening up our strategic intentions around those critical questions. You've heard me ask a lot over the years, what game are we playing and how do we win?

I think that as we look at the macro, Deane, we don't have a unique house view here as to how things are going to play out. I think, like others, we're concerned just around the host of issues that are out there.

But that said, at Aerospace, we have tremendous demand. Again, the customers I speak to on a regular basis are quite bullish about their outlooks. They need us to continue to support them, and we intend to do that. I'm sure you'll hear later this week from our airframer customers and the ramps that are underway in new plane production. We want to do the same with them. So we're not unmindful of the macro at Aerospace, but we've got a lot of activity to work through, and perhaps a little bit of a secular exemption to some of the near-term economic uncertainty.

Pete, I think, spoke well to HealthCare. But here again, post-COVID, in addition to the backlog work-down that we will pursue, I think health care modernization. Pete mentioned China, I think we're going to see the same thing here in the U.S. Europe also a priority. I think that bodes well, particularly for how we play in precision health.

And then, again, given the support here in the U.S. around the inflation Reduction Act primarily for wind and grid, but to a degree, gas. But also this more pragmatic approach to the trilemma, I think, is going to really help both Renewables and Power as we move forward. And that's not a '23 dynamic.

So again, I don't want to suggest that any of our businesses are insulated or immune from the broader economic context. But I do think we've got specific secular drivers in addition to so much that is within our control to work through it. And that's what we're going to do. We're going to control the controllable, stay true to the Lean agenda and put forward the best fourth quarter and the best 2023, we possibly can.

Steven Eric Winoker General Electric Company - VP of IR

Great. Larry, any final comment?

Steve, thank you. Just to close here, the team, the GE team delivered again in the third quarter, led by Aerospace, a very strong quarter. The spins are on track, starting with HealthCare in early January. As Pete mentioned, before then, we hope to see many of you at our GE HealthCare Investor Day on the 8th of December.

And we do appreciate your time today, your interest in GE, your investment in our company. And we stand by, Steve, Carolina and the rest of the IR team, to help as you consider GE and GE HealthCare in your investment processes.
Steven Eric Winoker General Electric Company - VP of IR

Thank you.

Operator

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