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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the General Electric Third Quarter 2021 Earnings Conference Call. (Operator Instructions) My name is John, and I'll be your conference coordinator today. (Operator Instructions) As a reminder, this conference call is being recorded.

And 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, John. Welcome to GE's Third Quarter 2021 Earnings Call. I'm joined by Chairman and CEO, Larry Culp; and CFO, Carolina Dybeck Happe.

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 may 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, and good morning, everyone. Our team delivered another strong quarter as orders, margins and cash improved. While the aviation market is showing continued signs of recovery and contributed to the quarter, our focus on continuous improvement and lean is driving broader operational and financial progress. At the same time, we're managing through significant challenges that we'll discuss further today.

Starting with the numbers on Slide 2. Orders were robust, up 42%, with growth in all segments in both services and equipment, reflecting continued demand for our technology and solutions and better commercial execution. Industrial revenue was mixed. We saw a continued strength in services, up 7% organically. Aviation improved significantly, benefiting from the market recovery. Equipment was down 9% organically, largely due to supply chain disruptions, the Ford ventilator comparison in Healthcare, and as expected, lower Power equipment. Adjusted Industrial margin expanded 270 basis points organically, largely driven by operational improvement in many of our businesses, growth in higher-margin services at Aviation and Power, and net restructuring benefits. Adjusted EPS was up significantly, driven by Industrial. Industrial free cash flow was up $1.8 billion ex discontinued factoring programs due to better earnings, working capital and the short-term favorable timing impact of aircraft delivery delays.

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Overall, I'm encouraged by our performance, especially at Aviation. Let me share what gives me -- gives us confidence there. First, our results reflect a significant improvement in near-term market fundamentals. Departure trends are better than the August dip and have recovered to down 23% of '19 levels. We expect this acceleration in traffic to continue as travel restrictions lift and vaccination rates increase.

Our results also reflect operating improvements. For example, at Aviation's overhaul shops, our teams have used lean to increase turnaround time by nearly 10% and decrease shop inventory levels by 15% since the fourth quarter of 2020. These improvements are enabling us to get engines back to customers faster and at a lower cost.

No business is better positioned than GE Aviation to support our customers through the coming up cycle. We're ready with the industry's largest and youngest fleet, while we continue to invest for the next generation with lower carbon technologies, such as the CFM RISE program. This platform will generate value for decades to come.

We're also clearly navigating headwinds as we close this year and look to 2022. We're feeling the impact of supply chain disruptions in many of our businesses, with the largest impact to date in Healthcare. Based on broader industry trends, we expect company-wide pressure to continue, at least into the first half of next year. Our teams are working diligently to increase supply by activating dual sources, qualifying alternative parts, redesigning and requalifying product configurations and expanding factory capacity. We're also focused on margins as we deploy lean to decrease inventory and costs as well as implement appropriate pricing actions and to reduce select discounts.

Our CT team in Japan, for example, has been experiencing higher customer demand, so we're making our production even more efficient to help offset the challenge of delayed inputs. The team used value stream mapping, standard work and quarterly Kaizens to reduce production lead time once parts are received by more than 40% from a year ago. And there's line of sight there to another 25% reduction by the end of the year. While this is a single example within Healthcare, taken together with other efforts, and over time, these add up.

At Renewables, we're encouraged by the U.S. Administration's commitment to offshore wind development. However, in onshore wind, the pending U.S. production tax credit extension is creating uncertainty for customers and causing much less U.S. market activity in preparation for 2022. As we've shared, a blanket extension, while a well-intended policy, has the unintended consequence of pushing out investment decisions. In our business, given the lag between orders and revenue, the impact will continue through the fourth quarter and into '22. This environment, along with inflation headwinds picking up next year, makes Renewables' ongoing work to improve cost productivity even more urgent.

Given these puts and takes, we now expect revenue to be about flat for the year, driven by changes to some of our business outlooks, which Carolina will cover in a moment. Importantly, even with lower revenue, we're raising our margin and EPS expectations, underscoring improved profitability and services growth and reflecting our strengthened operations. And we're narrowing our free cash flow range around the existing midpoint.

Looking further out to next year, as our businesses continue to strengthen, we expect revenue growth, margin expansion and higher free cash flow despite the pressures that we're managing through currently. We'll provide more detail as usual during our fourth quarter earnings and outlook call.

Moving on to Slide 3. Challenges aside, our performance reflects the continued progress in our journey to become a more focused, simpler, stronger, high-tech industrial. The GECAS and AerCap combination is a tremendous catalyst, enabling us to focus on our Industrial core and accelerate our deleveraging plan. Just last week, GE and AerCap satisfied all regulatory clearances for the GECAS transaction. And we're now targeting to close November 1. We'll use the proceeds to further reduce debt, which we now expect to reach approximately $75 billion since the end of 2018. This is enabling GE to look longer term even as we execute our deleveraging.

As we accelerate our transformation, lean and decentralization are key to improving operational results. This quarter, we hosted our global Kaizen week in each of our businesses, with over 1,600 employees participating. John Slattery, the CEO of GE Aviation, and I joined our Military team in Lynn, Massachusetts for the full week, while our business CEOs joined their teams across the globe.

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Lean is fundamentally about going to genba, where the real work is done, and is best learned in operations where you can see it, touch it, smell it firsthand. And in Lynn, we were there to serve those closest to the work, our operators. Our mission was to improve first-time yield on midframes, a key subassembly of the military engines we produce in Lynn, whose stubborn variability has been directly and negatively impacting our on-time delivery. By the end of the week, we had improved processes for welding and quality checks on midframe parts, improvements that we're convinced will help us reach our goals for military on-time delivery by the middle of next year, if not earlier. And we can improve our performance on the back of these changes for years to come.

There are countless other examples of how our teams are leveraging lean to drive sustainable, impactful improvements in safety, quality, delivery, cost and cash. They reflect how we're running GE better and how we're sustaining these efforts to drive operational progress and lasting cultural change.

Our significant progress on deleveraging and operational execution sets us up well to play offense in the future. Our first priority of course, is organic growth. This starts with improving our team's abilities to market, sell and service the products we have.

There are many recent wins across GE this quarter, but to highlight one, our Gas Power team delivered, installed and commissioned four TM2500 aeroderivative gas turbines in only 42 days to complement renewable power generation for California's Department of Water Resources during peak demand season. These turbines, using jet engine technology adapted for industrial and utility power generation, start and ramp in just minutes, providing rapid and reliable intermittent power, helping enhance the flexibility and sustainability of California's grid.

And we're bolstering our offerings with innovative new technology that serves our customers and leads our industries forward. For example, at Renewables, our Haliade-X offshore wind turbine prototype operating in the Netherlands, set an industry record by operating at 14 megawatts, more output than has ever been produced by any wind turbine.

From time to time, we'll augment our organic efforts with inorganic investments. Our recently announced acquisition of BK Medical represents a step forward as we advance our mission of precision health care. Bringing BK's intraoperative ultrasound technology together with the pre- and postoperative capabilities in our Ultrasound business creates a compelling customer offering across the full continuum of care -from diagnostics, through surgical, and therapeutic interventions as well as patient monitoring. Not only does BK expand our high-performing $3 billion Ultrasound business, but it also is growing rapidly with attractive margins itself. We expect the transaction to close in '22, and I'm looking forward to welcoming the BK team to GE.

All told, we hope that you see that GE is operating from a position of strength today. We delivered another strong quarter, and we're playing more offense, which will only accelerate over time. We're excited about the opportunities ahead to drive long-term growth and value.

So with that, I'll turn it over to Carolina, who will provide further insights on the quarter.

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

Thanks, Larry.

Our results reflect our team's commitment to driving operational improvement. We're leveraging lean across GE and our finance function. In addition to Kaizen week that Larry mentioned, over 1,800 finance team members completed a full "waste walk week", applying lean and digital tools to reduce non-value-added work by 26,000 hours and counting. For example, at Renewables, our team streamlined and automated account reconciliations, intercompany settlements and cash applications. This type of transactional lean frees up time so we can focus more on driving higher-quality, faster operational insights and improvement, helping our operating teams run the businesses more efficiently.

Looking at Slide 4, I'll cover on an organic basis. Orders were robust, up 42% year-over-year and up 21% sequentially on a reported basis, building on revenue momentum heading into '22. Equipment and services in all businesses were up year-over-year, with strength in

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Aviation, Renewables and Healthcare. We are more selective in the commercial deals we pursue, with a greater focus on pricing in an inflation environment, economic terms and cash. Together with targeting more profitable segments like services, we're enhancing order quality to drive profitable growth.

Revenue was up sequentially, with growth in services, driven by Aviation and Power, but down year-over-year. Equipment revenue was down, with the largest impact in Healthcare and Power. Overall, mix continues to shift towards higher-margin services, now representing half of the revenue.

Adjusted Industrial margins improved sequentially, largely driven by aviation services. Year-over-year, total margins expanded 270 basis points, driven by our lean efforts, cost productivity and services growth. Both Aviation and Power delivered margin expansion, which offset the challenges in Healthcare and Renewables.

Consistent with the broader market, we are experiencing inflation pressure, which we expect to be limited for the balance of '21. Next year, we anticipate a more challenging inflation environment. The most adverse impact is expected in Onshore wind due to the rising cost of transportation and commodities, such as steel and resin, impacting the entire industry.

We are taking action to mitigate inflation in each of our businesses. Our shorter-cycle businesses felt the impact earliest, while our longer-cycle businesses were more protected given extended purchasing and production cycles. Our service businesses fall in between. Our teams are working hard across functions to drive cost countermeasures and improve how we bid on businesses, including price escalation. Finally, adjusted EPS was up 50% year-over-year, driven by Industrial.

Overall, we're pleased with the robust demand, evidenced by orders growth and our year-to-date margin performance. While we're navigating headwinds caused by supply chain and PTC pressure, these have impacted our growth expectations. We're now expecting revenue to be about flat for the year. However, due to our continued improvement across GE, we are raising our '21 outlook for organic margin expansion to 350 basis points or more and our adjusted EPS to a range of $1.80 to $2.10.

Moving to cash. A major focus of our transformation has been strengthening our cash flow generation through better working capital management and improved linearity, ultimately to drive more consistent and sustainable cash flow. Our quarterly results show the benefits of these efforts.

Industrial free cash flow was up $1.8 billion ex discontinued factoring programs in both years. Aviation, Power and Healthcare all had robust free cash flow conversion in the quarter. Cash earnings, working capital, and allowance and discount payments, or AD&A, driven by the deferred aircraft delivery payment, contributed to this significant increase.

Looking at working capital, I'll focus on receivables, where we saw the largest operational improvement. Receivables were a source of cash, up $1.3 billion year-over-year ex the impact of discontinued factoring, mainly driven by Gas Power collections. Overall, strengthening our operational muscles in billings and collections is translating into DSO improvement, as evidenced by our total DSO, which is down 13 days year-over-year.

Also positively impacting our free cash flow by about $0.5 billion in the quarter was AD&A. Given the year-to-date impact and our fourth quarter estimate aligned with the current airframer aircraft delivery schedule, we now expect positive flow in '21, about $300 million, which is $700 million better than our prior outlook. This year's benefit will reverse in 2022, and together with higher aircraft delivery schedule expectations, will drive an outflow of approximately $1.2 billion next year. To be clear, this is a timing issue.

You'll recall that we decided to exit the majority of our factoring programs earlier this year. In the quarter, discontinued factoring impact was just under $400 million, which was adjusted out of free cash flow. The fourth quarter impact should be under $0.5 billion, bringing our full year factoring adjustment to approximately $3.5 billion.

Without the factoring dynamics, better operational management of receivables have become a true cross-functional effort. Let me share an example. Our Steam Power team recently shifted to this from a more siloed approach. Leveraging problem solving and value stream

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mapping, they have reduced average billing cycle time by 30% so far. So only 2 quarters in, more linear business operations, both up and downstream, are starting to drive more linear billings and collections. While we have a way to go, more linear business operations drive better and sustainable free cash flow. Year-to-date, ex discontinuing factoring across all quarters, free cash flow increased $4.8 billion year-over-year.

In each of our businesses, our teams are driving working capital improvement, which together with higher earnings make a real and measurable impact. Taking the strong year-to-date performance, coupled with the headwinds we've described, we're narrowing our full year free cash flow range to $3.75 billion to $4.75 billion.

Turning to Slide 6. We expect to close the GECAS transaction on November 1. This strategic transaction not only deepens our focus on our industrial core, but also enables us to accelerate our debt reduction, with approximately $30 billion in consideration. Given our deleveraging progress and cash flow improvement to date, plus our expected actions and better [pass-through] performance, we now expect a total reduction of approximately $75 billion since the end of 2018.

GE will receive a 46% equity stake in one of the world's leading aviation lessors, which we will monetize as the aviation industry continues to recover. As we've shared, we expect near-term leverage to remain elevated. And we remain committed to further debt reduction and our leverage target over the next few years.

On liquidity, we ended the quarter with $25 billion of cash. We continued to see significant improvement in lowering GE's cash needs, currently at $11 billion, down from $13 billion in the quarter, taking this decrease due to reduced factoring and better working capital management. This is an important proof point that we are able to operate with lower and more predictable cash needs, creating opportunities for high-return investments.

Moving to the businesses, which I'll also speak to on an organic basis. First, on Aviation. Our improved results reflect a significantly stronger market. Departure trends recovered from August. It's early, but the pickup that began in September is continuing through October. Better departures and customer confidence contributed to higher shop visits and spare part sales than we had initially anticipated. The impact of green-time utilization has also lessened. We expect these positive trends will continue into the fourth quarter.

Orders were up double-digits. Both Commercial Engines and Services were up substantially again year-over-year. Military orders were also up, reflecting a large Hindustan Aeronautics order for nearly 100 F404 engines along with multiple T700 orders.

For revenue, Commercial Services was up significantly, with strength in external spares. Shop visit volume was up over 40% year-over-year and double-digits sequentially, with the overall scope slightly improved. We continued to see higher concentration of narrowbody and regional aircraft shop visits.

Commercial Engines was down double-digits with lower shipments. Our mix continues to shift from legacy to more NPI units, specifically LEAP, and lower production rates on GEnx. We're also navigating through material fulfillment constraints, amplified by increased industry demand, which impacted deliveries.

Military was down marginally. Unit shipments were flat sequentially, but up year-over-year. Without the delivery challenges, Military revenue growth would have been high single-digits this quarter. Given this continued impact, Military growth is now expected to be negative for the year.

Segment margin expanded significantly, primarily driven by Commercial Services and operational cost reduction. In the fourth quarter, we expect margins to continue to expand sequentially, achieving our low double-digit margin guide for the year. We now expect '21 shop visits to be up at least mid-single-digits year-over-year versus about flat. Our solid performance, especially in Services, underscores our strong underlying business fundamentals as the commercial market recovers.

Moving to Healthcare. Market momentum is driving very high demand while we navigate supply chain constraints. Government and private health systems are investing in capital equipment to support capacity demand and to improve quality of care across the market.

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Building on a 20-year partnership, we recently signed a 5-year renewal to service diagnostic imaging and biomedical equipment with HCA Healthcare, one of the nation's leading providers of healthcare. Broadly, we're adapting to overarching market needs of health system efficiency, digitization as well as resiliency and sustainability.

Against that backdrop, orders were up double-digits, both year and versus '19, with strength in Healthcare Systems up 20% year-over-year, and PDx up high single-digits. However, revenue was down with a high single-digit decline at HCS, more than offsetting the high single-digit growth we saw at PDx. You'll recall that last year, the Ford ventilator partnership was about $300 million of Life Care Solutions revenue. This comp negatively impacted revenue by 6 points. And thinking about the industry-wide supply shortages, we estimate that growth would have been approximately 9 points higher if we were able to fill all orders. And these challenges will continue into at least the first half of '22.

Segment margin declined year-over-year, largely driven by higher inflation and lower Life Care Solutions revenue. This was partially offset by productivity and higher PDx volume. Even with the supply chain challenges, we now expect to deliver close to 100 basis point of margin expansion as we proactively manage sourcing and logistics.

Overall, we're well positioned to keep investing in future growth, underscoring our confidence in profit and cash flow generation. We're putting capital to work differently than in the past, supplementing organic growth with inorganic investments that are a good strategic fit. These are focused on accelerating our precision health mission, like BK Medical. And we're strengthening our operational and strategic integration muscles.

At Renewables, we're excited by our long-term growth potential, supported by new technologies like Haliade-X and Cypress and our leadership in energy transition despite the current industry headwinds. Looking at the market, since the second quarter, the pending PTC extension has caused further deterioration in the U.S. Onshore market outlook. Based on the latest WoodMac forecast for equipment and repower, the market is now expected to decline from 14 gigawatts of wind installments this year to approximately 10 gigawatts in 2022. This pressures orders and cash in '21.

In Offshore Wind, global momentum continues, and we're aiming to expand our commitment pipeline through the decade. And modernizing the grid is a key enabler of the energy transition. And we saw record orders, driven by Offshore, where the project-driven profile will remain uneven. This leads to continued variability for progress collection.

Onshore orders grew modestly, driven by services and international equipment, partially offset by lower U.S. equipment due to the PTC dynamics. Revenue declined significantly. Services was the main driver, largely due to fewer Onshore repower deliveries. Ex repower, Onshore services was up double-digits. Equipment was down to a lesser extent, driven by declines in the U.S. Onshore and Grid. This was partially offset by continued growth in international Onshore and Offshore. For the year, we now expect revenue growth to be roughly flat.

Segment margin declined 250 basis points. Onshore was slightly positive, but down year-over-year. Cost reductions were more than offset by lower U.S. repower volume, mix headwinds as new products ramp and come down the cost curve as well as supply chain pressure. Offshore margins remain negative as we work through legacy projects and continue to ramp Haliade-X production. At Grid, better execution was more than offset by lower volume. Due mainly to the PTC impact, we now expect Renewables free cash flow to be down and negative this year. Looking forward, where we are facing headwinds, we're intently focused on improving our operational performance, profitability and cash generation.

Moving to Power. We're performing well. Looking at the market, global gas generation was down high single-digits due to price-driven gas-to-coal switching. Yes, you heard me right, gas to coal switching. However, GE gas turbine utilization continues to be resilient as megawatt hours grew low single-digits. Despite recent price volatility, gas continues to be a reliable and economic source of power generation. Over time, as more baseload coal comes offline and with the challenges of intermittent renewables power, customers continue to need gas. Through the next decade, we expect the gas market to remain stable, with gas generation growing low single digits.

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Orders were driven by Gas Power services, Aero and Steam, each up double-digits. Gas equipment was down despite booking 6 more heavy-duty gas turbine as timing for HAs remain uneven across quarters. We continued to stay selective with disciplined underwriting to grow our installed base. And this quarter, we booked orders for smaller-frame units.

Demand for Aeroderivative power continues. For the year, we expect about 60 unit orders, up more than 5x year-over-year. Revenue was down slightly. Equipment was down due to reduced turnkey scope at Gas Power and the continued exit of new build coal at Steam. Consistent with our strategy, we are on track to achieve about 30% turnkey revenue as a percentage of heavy-duty equipment revenue this year, down from 55% in 2019, a better risk-return equation.

At the same time, Gas Power shipped 11 more units year-over-year. Gas Power services was up high single-digits, trending better than our initial outlook due to strong CSA volume. We now expect Gas Power services to grow high single-digits this year. Steam services was also up.

Margins expanded year-over-year, yet were down sequentially due to outage seasonality. Gas Power was positive and improved year-over-year, driven by services growth and Aero shipments. We remain confident in our high single-digit margin outlook for the year. Steam is progressing through the new build coal exit. And by year-end, we expect our equipment backlog to be less than $1 billion compared to $3 billion a year ago. Power Conversion was positive and expanded in the quarter.

Overall, we're encouraged by our steady performance. Power is on track to meet its outlook, including high single-digit margins in '23 plus.

Our team is focused on winning the right orders, growing services and increasing free cash flow generation.

Moving to Slide 8. As a reminder, following the GECAS close in the fourth quarter, we will transition to one column reporting and roll in the remainder of GE Capital into Corporate. Going forward, our results, including adjusted revenue, profit and free cash flow, will exclude insurance. To be clear, we'll continue to provide the same level of insurance disclosures. In all, this simplifies the presentation of our results as we focus on our industrial core.

At Capital, the loss in continuing operations was up year-over-year, driven primarily by a nonrepeat of prior year tax benefit, partially offset by the discontinuation of the preferred dividend payment. At Insurance, we generated $360 million net income year-to-date, driven by positive investment results and claims still favorable to pre-COVID levels. However, this favorable claim trends are slowing in certain parts of the portfolio.

As planned, we conducted our annual premium deficiency test, also known as the loss recognition test. This resulted in a positive margin, with no impact to earnings for a second consecutive year. The margin increase was largely driven by a higher discount rate, reflecting our investment portfolio realignment strategy, with a higher allocation towards select growth assets. Claims costs curve continued to hold. In addition, the teams are preparing to implement the new FASB accounting standard, consistent with the industry, and we're working on modeling updates.

Based on our year-to-date performance, Capital still expects a loss of approximately $500 million for the year. In discontinued operations, Capital reported a gain of about $600 million, primarily due to the recent increase in AerCap stock price, which is updated quarterly.

Moving to Corporate. Our priorities are to reduce functional and operational costs as we drive leaner processes and embrace decentralization. The results are flowing through, with costs down double-digits year-over-year. We are now expecting Corporate costs to be about $1 billion for the year, and this is better than our prior $1.2 billion to $1.3 billion guidance.

As you can see, lean and decentralization aren't just concepts. They are driving better execution and cultural change. They are supporting another strong quarter. They are enabling our businesses to play more offense. And ultimately, they're driving sustainable, long-term profitable growth.

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Now Larry, back to you.

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

Carolina, thank you. Let's turn to Slide 9. Our teams continued to deliver strong performance. We're especially encouraged by our earnings improvement, which makes us confident in our ability to deliver our outlook for the year. You've seen today that our transformation to a more focused, simpler, stronger, high-tech industrial is accelerating. We're on the verge of closing the GECAS-AerCap merger, a tremendous milestone for GE.

Stepping back, our progress has positioned us to play offense. We just wrapped up our annual strategic reviews with nearly 30 of our business units. These complement our quarterly operating reviews, but have a longer-term focus as we answer 2 fundamental questions: What game are we playing? And how do we win? These reviews were exceptionally strong this year across the board, with the most strategic and cross-functional thinking we've seen in my 3 years, enabling us to drive long-term growth and value across GE, while delivering on our mission of building a world that works. We're positioned to truly shape the future of flight with new technology for sustainability and efficiency, such as the recent Catalyst engine launch, the first clean sheet turboprop design entering the business in general aviation market in 50 years.

Touching 1 billion patients per year, we're delivering more personalized and efficient care through precision health and combining digital AI within our products, including our new cloud-based Edison TruePACS, to help radiologists adapt to higher workloads and increased exam complexity with improved diagnostic accuracy.

Through our leadership in the energy transition, we're helping the world tackle the trilemma of sustainability, affordability and reliability from launching new tech platforms at Renewables, such as the Haliade-X and Cypress; to our recently announced flexible transformer project with the Department of Energy; to growth in the world's most efficient gas turbines.

To be clear, we still have work to do. And as we do it, we're operating increasingly from a position of strength, serving our customers in vital global markets with a focus on profitable growth and cash generation. Our free cash flow will continue to grow towards a high single-digit percentage of sales level. And we have an opportunity to allocate more resources on capital deployment to support GE's growth over time.

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

Steven Eric Winoker ***General Electric Company - VP of IR***

Thanks, Larry. (Operator Instructions) John, can you please open the line?

QUESTIONS AND ANSWERS

Operator

And our first question is from Julian Mitchell from Barclays.

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

Maybe my question would just be around free cash flow. So you'd mentioned that free cash flow would be up in 2022. I just wanted to make sure, is that sort of comparable with that $3.75 billion to $4.75 billion guide for this year? Or is that sort of apples-to-apples once you roll in what's left of Capital into the cash flow for this year? And a related question is, you talked on Slide 9 about the high single-digit cash flow margin over time. Just wanted to make sure there's no -- that does not mark a shift from the sort of 2023 plus time frame you'd mentioned before.

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

So Julian, let me start then. You talked about the 2022 remarks that we made. Like-for-like, we expect Industrial free cash flow to step up. We expect our business earnings to improve. We expect that through top line growth and margin expansion that will turn into profit,

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which we then believe -- well, which we then will see go to cash, right?

Then if you look a little bit outside of earnings, we do have a couple of significant cash flow items to think about. We have mentioned the supply chain headwinds that we think will continue into next year. So that will hamper both on the profitability but also on inventory. And then we have the headwind of AD&A. We talked about that in this year. It's going to be more positive, but it's going to be a big headwind in next year. And this is really only a timing effect because of when customers expect to deliver the aircraft, right?

And overall, my last comment on Industrial side will be, if you look at working capital, with that growth in mind, we will need some working capital to fund the top line growth, right? But on the other hand, we also expect to continue to improve working capital management, for example, in receivables, and to some extent, also to inventory. Within that, we do see improvement in linearity as possible as well. So that's like-for-like on the Industrial side.

If we then add the consolidated Capital or basically what's left of Capital then, consolidated in, like-for-like, we expect it to also increase. And the increase on top of that would mainly be driven by the lower interest that we will see from debt reduction. So we are confident in an overall growing trajectory, both Industrial like-for-like as well as including Capital.

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

And I would say just to the second question, the simple short answer is no change whatsoever relative to our expectations with respect to high single-digit free cash flow margins, right? When we talk about that, let's just take for simplicity's sake, 8% on a revenue base akin to where we were in 2019, right? That pencils out on a $85 billion to $90 billion revenue base to, say, $7 billion of free cash.

That's really going to be an earnings, lower restructuring spend and better working capital management story. Clearly, from a profit perspective, that's going to be an Aviation-led dynamic. Healthcare right in behind it. And then we still anticipate that we turn [Renewables] (corrected by company after the call) profitable, and we get a couple of billion dollars of profit from Power. You deduct, call it, $1.0 billion for Corporate. But you get close to, let's call it, $10 billion of op profit, convert that to, net of interest and taxes, at 90%, you get to that same $7 billion figure. So we think we're on our way. But again, the short answer is no change.

Operator

And our next question is from Nigel Coe from Wolfe Research.

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

Great. Thanks for the detail on the AD&A next year, $1.2 billion. Just -- I just want to confirm that -- I'd assume you expect some help from progress collections in Aviation next year, assuming we're in a recovering order environment. But the real question is on the insurance testing in 3Q. And I know this is a gap, not stats test. But I think the 10-Q called out an 11% surplus. So I'm just curious, Carolina, what does that mean for future cash payments going forward? At what point does the service become so large that, that could have some good news for cash in going forward?

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

Thanks for the question, Nigel. Yes. So it is a factor. So we did do the testing on the LRT, and we had good news, I would say, as expected. And when you have a positive margin, that means no charge to the P&L. Yes, and the margin was 11% positive, which is significantly higher than what we have seen. It was mainly driven by the discount rate increase. It increased from 5.7% to 6.15%. And I would say that increase was really driven by asset allocation and really, our plan to increase the amount allocated to growth assets, where we're going from 9% to 15%. The other variables had -- like morbidity and mortality, inflation in premium, they were a small impact. So we're really happy with that.

And your question then on top of that, sort of for CFT, so CFT or the cash flow testing, that is what decides, yes, if there's a need to add cash to the Insurance. I would say like this, it's not one to one. Yes, the variables are similar to LRT, but they are used under moderately adverse conditions. I would say the modeling will happen beginning of next year, as usual. We will look at our investment portfolio

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realignment and the changes factored into that model. Also look at the future cash flow. But it could have some adverse effect because we're using more granular assumptions. But I would say, overall, the good news from the LRT bodes very well for the CFT, but it's not one to one.

Operator

Our next question is from Jeff Sprague from Vertical Research Partners.

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

Larry or Carolina, can we talk a little bit more about price/cost? I think your message on the pressures into the first half are pretty clear. But kind of this kind of question of kind of cost in the backlog, so to speak, that needs to work its way through the system. Wonder if you could just kind of size this a little bit for us or put it in the context of what you're actually capturing on price, say, on current orders. Maybe what kind of the price/cost total headwind or tailwind is in 2021 versus what you're kind of expecting in 2022 based on what you can see in the backlog.

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

So Jeff, why don't I start? And then, Larry, you can jump in.

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

Sure, sure.

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

If we start with inflation, I just want to reiterate that, of course, we're hit by inflation, but it's a bit different depending business by business. We have the shorter-cycle businesses like Healthcare, where we are feeling the impact faster than the longer cycle, like Power, and we have sort of services in between. On the longer cycle ones, they are more protected because of the, I would say, the extended purchasing and production cycles. We are seeing the main pressures on commodities like steel, but also logistics pressure is increasing, right?

Specific to 2021, we have felt inflation, but so far, we've been able to offset it. And we expect the impact for the full year to be limited in '21, the net impact. For 2022, we do expect to see significant pressure. And I would say it's top of our list of priorities for next year. And we're taking both price and cost countermeasures.

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

Yes. Jeff, I think that's right. And as you would imagine, in an environment like this, we're not only working the value add, value engineering, the more traditional cost actions aggressively. We're working with the supply base as feverishly as we can, both on availability and on cost.

That said, as Carolina was alluding to on the price side, we're doing all we can in the shorter-cycle businesses. It's a little easier, say, in Healthcare, where we've got more like-for-like. We can see those price actions. We're beginning to see some early traction there. Services is a bit mixed. But where we have opportunities, say, on spares and within the escalation frameworks within some of the longer-term service agreements, we're obviously going to get what we can there.

You spoke to projects. I mean that's -- it's a little bit more bespoke. But it -- while it's difficult to measure price like-for-like, we are managing the margins with some of the longer-term procurement efforts that Carolina alluded to.

Just more broadly on the backlog, it's important to remember, when you look at what -- it's what, $380 billion of backlog, 70% of that's in Aviation. Virtually, all of that is in Services. So certainly, a competitive space. But between the catalog pricing dynamics and some of the escalation protection, we think we're well positioned. But we take nothing for granted there. Outside of Aviation, the bulk of the backlog is also in services, where similar dynamics apply. But again, limited pressure net-net in '21, building headwinds for us next year. We've got time to work both the cost and the price countermeasures. And as Carolina said, I don't think we've got a higher priority operationally here in the short term than those two.

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Operator

And our next question is from Deane Dray from RBC Capital Markets.

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

Like to get some more comments, if we could, on the Aviation aftermarket visibility, that 40% up year-over-year in shop visits, similar to what your competitors have announced. Just talk about visibility, the ramp on departures and your capacity. I know there had been some cuts. Do you have the capacity to handle all this? I know lean is helping. And then a related question, what kind of R&D investments are you making today or you're planning for to help the airlines hit their carbon-neutral goals by 2050?

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

Deane, I would say with respect to the aftermarket, I think you highlighted some of the keys for us, right? Very pleased with the shop visit activity being up 40% in the third quarter, better than we had anticipated. I think we were calling for up 25%. We will see sequential improvement. It's not going to be as pronounced year to year here. In the fourth quarter, probably it's going to be up, call it, 30%. In October thus far, we're off to a good start in terms of underlying activity.

All of that's been coupled with, I would say, robust spare part demand from third-party providers. So right, it's that coupling up, if you will, of volume and value that are going to set us up for a pretty good second half here and going into next year.

We're working through supply chain challenges here, be it material, be it labor, as we are everywhere else. I think we're positioned here, at least as we -- as best we can see. I'm glad you highlighted the lean improvements, right? Rather than just throwing a lot of bodies and a lot of capital into the breach, we really are trying to work the process. Russell Stokes and the team in Services understand that very well, which is why we highlighted some of the turnaround improvements that we did in our formal remarks.

You go back to, I guess, what was technically the second quarter, but the -- middle of June, John Slattery, in concert with our partners at Safran, announced the CFM RISE program, which really is a multigenerational technology investment program to make sure we're on a path, be it with sustainable aviation fuels, be it hybrids, be it hydrogen, to be in a position to maintain the industry leadership this business has enjoyed for decades.

So there's a lot to come. We're going to be spending. And we're going to be spending smartly in and around those areas to launch technologies that ultimately transition into product programs as our airframer and airline customers deem appropriate. So a lot going on short term and long term. But again, we really like where Aviation is, particularly with the departure trends and the outlook here in the near term.

Operator

Our next question is from Steve Tusa from JPMorgan.

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

You mentioned the sequential kind of margin increase in Aviation. I think the revenues were a little bit weaker this quarter. For fourth quarter, I think your kind of implied guidance -- I know it's kind of a wide range, and you guys haven't really updated in a while, gets me to kind of a midpoint of $1 billion for 4Q. You just had a nice sequential increase from 2Q to 3Q. Is that kind of the right number? And then as a follow-up to that, for next year, with the $1.5 billion headwind as AD&A normalizes, what mechanically -- like what's the math that can overcome that kind of headwind for Aviation to grow free cash?

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

Okay. So if we start with the Aviation and the margin -- and you talked about the margin going into the fourth quarter, right? So what we are seeing, and I think an important add on the third quarter, is that we see a shift clearly towards services, right? So in the third quarter, we had 20% growth of services, while equipment was down. So this better mix also tilted toward external really is what makes you see the drop-through, right?

And Larry talked about higher shop visits, so 40% up year-over-year. We also saw the strong third-party sales, up around 30%. For the

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fourth quarter, we have the seasonality, as you know, but we also don't expect it to be as high for the fourth quarter. So we expect to continue sort of from the third quarter into the fourth quarter with a sequential improvement. And overall, that's how we get to our low double-digit margins for 2021. We haven't specifically said exactly what the profit is in the fourth quarter for Aviation. But with all those pieces, you sort of piece it together.

For 2022, you asked about Aviation free cash flow. So I would say a couple of things. You're right on the AD&A. It is a timing issue. So we'll have a big headwind next year on the AD&A side. But what we do see is we expect return to flight to continue. So we will expect to see basically utilization being driven, which means more hours flown, which means higher billings on our CSAs. You know that cash comes before the profit. So we do expect to have really good uptick on services and the cash flow. So basically, on the CSA side there.

Yes, AD&A will be a headwind. But on top of that, we'll also have the profit that we will see from more shop visits. So overall, the mix of that gets us to a positive place. I think it's mainly the services and the CSAs. That is the big positive.

Operator

And our next question is from Joe Ritchie from Goldman Sachs.

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

Just maybe just sticking with free cash flow for a second and thinking about the 4Q implied guidance. Typically, 4Q is your seasonally strongest quarter. The step-up from 4Q to 3Q seems to be a little bit seasonally weaker than what we've seen in prior years. So I'm just curious if -- any puts and takes that we need to be aware of as we kind of think about the sequential bridge for free cash flow 3Q to 4Q.

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

Joe, let me answer that. So I think it's important to take a step back. And if we look at jumping off point for 2020 for free cash flow for the full year, the free cash flow, excluding factoring and biopharma, we were $2.4 billion in 2020. If you take our -- a midpoint of our guide now and you add back the factoring, you get to $5 billion for this year. So just to put in perspective, we're going from last year, $2.4 billion to midpoint of $5 billion this year. So we're doubling the cash flow for 2021. We are also seeing linearity improvements in 2021, which is part of the reason the fourth quarter not being as un-linear as it has been before.

After the range that we have, there are basically two main areas that bring us uncertainty: one, some of the supply chain challenges; and the other one is the PTC pressure that we then expect to impact progress. So what does that exactly mean for the fourth quarter? Well, we'll have higher sequential profit, and we expect to see free cash from the market improving and some of the usual seasonality. But it would still be down year-over-year. The supply chain challenges, you'll see through earnings, but also through inventory, right? It's going to be a lot of stack in WIP that isn't going out.

And then for the full year, fourth quarter last year, you remember we had big Renewables progress of $1 billion. So we don't expect that to happen this year. And then I've also previously talked about the Aviation MAX settlements and CARES Act as positive one-offs in fourth quarter last year. If you take that all together, that's how we get to the fourth quarter, and importantly, how we get to $5 billion jumping off point of free cash flow this year, which is really important proof point and step to our high single-digit free margin journey that Larry talked about a little while ago.

Operator

And our next question is from Andrew Obin from Bank of America.

Andrew Burris Obin ***BofA Securities, Research Division - MD***

Just a question, longer term, Long-Term Care seems to be in better shape. Power is stabilizing. Once we consolidate balance sheet, that's a lot easier, and there is a path we're delivering. Back when you spoke about -- a lot about strategic optionality, but as sort of -- was COVID, I think, focus shifted elsewhere, but it seems to be coming back. Can you just talk about where we are about thinking about strategic optionality and sort of putting in historical context what you guys said about Healthcare, what you guys said about Long-Term Care, Renewables, et cetera? I know it's a broad question, but whatever you can share with us.

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

Sure. Sure, Andrew. Let me take a swing at that. I would say that, again, we're really pleased with the progress on both the deleveraging and the operational improvements. We still have to close the transaction, work through the follow-on debt reductions. But to be in a position to have line of sight now on what will be a cumulative approximately $75 billion debt reduction over the last 3 years allows us, I think, to look at the balance sheet and begin to think about playing more offense and take advantage of the strategic optionality that we have been looking to build and grow. That goes hand in hand with the underlying improvements, some of which, I would argue, you see in these numbers. Others, like what I saw in the shop floor and Lynn a few weeks back, you don't see yet, but which I think give us confidence that more improvements in terms of top line, bottom line and cash are forthcoming.

And all that really does is, I think, allow us to both invest in the business more aggressively, organically and inorganically. That's why we were so excited about the BK Medical transaction. Admittedly small, but the strategic logic behind it, the value-add, operationally, our $3 billion high-performing Ultrasound business will generate and the high single-digit returns we think we will have in time, that's what we should be doing more of in concert with what we're going to do organically.

All of that really sets us up, I think, Andrew, to be in a position to really realize the full potential of these wonderful businesses in the GE portfolio. There are a host of ways that could play out over time. But first things first, right? We've got some business here with the GECAS and AerCap merger to work through. We've got these operating challenges to navigate through the fourth quarter and going into next year. But I really do think we're increasingly operating from a position of strength. I like where we are. And in time, we will realize the full value of these businesses.

Operator

Our next question is from Markus Mittermaier from UBS.

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

Maybe a question on Power. Could you update us on the Steam Power restructuring progress? And any view on the potential impact here on the fixed cost base for that business? And is there anything sort of like that changes how you view that business given the French government's push recently -- investment push in nuclear and renewables? Or is that really separate in your business on the steam side between coal and nuclear?

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

Markus, let me start by talking to the restructuring then. First of all, in Steam, which is now part of the Power segment and also run by Scott, we have Valerie and her team working through the restructuring there. I would say they are on track. It's a big restructuring. We do expect margins to turn in 2023 and basically have the restructuring to temper down by them. And then the business is going to be 2/3 services going forward at a significantly lower overhead cost, which is what you were alluding to. So we see good traction, but we're still in the middle of it. So again, it will take time until 2023. But then we'll have a very different business with a high service element and lower overhead.

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

Markus, I think the other part of your question was really with respect to the steam generators for nuclear applications. As you will appreciate, our focus continues to be on running that business as well as we can for our customers. Recently, we did acknowledge that we are in discussions with EDF regarding a potential transaction. If there's an opportunity to create value, we'll certainly pursue it.

But if you step back for a moment, I think we are of the view that nuclear overall has an important role to play in the energy transition. We know the French government is strongly of that view. They aren't alone. I was in the U.K. last week where we had similar conversations, particularly in and around advanced nuclear technology, particularly in the case of the small modular reactors, which we know can provide carbon-free, dependable baseload and flexible capacity as we move forward here. So we've got a lot of capabilities in and around Nuclear, really the whole nuclear life cycle. So we don't talk a lot about it, but it is part of the Power framework for the energy transition and one we'll continue to manage as best we can going forward.

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Operator

And our next question is from Joe O'Dea from Wells Fargo.

Joseph John O'Dea ***Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst***

I wanted to ask on PTC, and how you're planning for that. And what your kind of base case assumptions are? What you're thinking about in terms of important dates on the time line? You talked about the step-down in installs expected next year. How temporary that is? Or what you're seeing? How much kind of persistent pressure it can put on the install market?

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

Joe, let me take that. I think with respect to the U.S. market for Onshore wind, we do see a step-down here going into '22, probably stepping down from, say, 14 to 10 gigawatts. It's not yet set in stone because these conversations are active and underway in Washington, given all the legislation under review that run up to COP26 and the like.

I think what we are incorporating in our commentary here today is a more pessimistic, perhaps, but updated view relative to the very near term. So in the absence of those incentives in the short term, we're going to feel pressure, both on new unit orders and in repowering. So some of that impacts cash. Some of that impacts margins relative to repowering installations this year. The good news is this is all part of a long-term extension given the administration's commitment to the energy transition, to the role of both Onshore and relatedly Offshore wind in that transition.

So if you take the decade-long view, the impetus or the imperative for us is really to manage these businesses better to generate better margins -- operating margins. But in the short term, we've got some additional pressures just given the reduction in demand that will follow the uncertainty around the tax incentives. And they hit us hard because the North American market, the U.S. market is clearly the best Onshore wind market for us on a global basis.

Operator

Our next question is from Nicole DeBlase from Deutsche Bank.

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

I was hoping to dig into the supply chain challenges a little bit here. And I know it's kind of become a little bit spread across a lot of your business, as you mentioned that it's becoming challenging in Aviation as well. But Larry, are you seeing any signs of abatement there? We've heard a few companies talk about the view that like August and September, where the pinnacle of supply chain challenges and things might be easing a little bit. Would love to hear what GE is seeing.

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

Nicole, I've talked to some of those CEOs. Some of those CEOs are friends of mine. I'm not sure we're yet at a place where we would say that things are stable. We may have line of sight. We may have improvements in one commodity or in one business. But almost without fail, the next day, right, a commodity, a supplier, a logistics provider that we thought was good for the next 6 weeks or the next 6 months offers up a revision to that outlook. So I think I've used a phrase I probably shouldn't, but I'll repeat it. It really is akin to playing Whac-A-Mole, right? By business, by commodity, by geography, it just seems like every day, there's new news to battle with.

I couldn't be more pleased with the way our team is navigating all of this, both in terms of availability and cost. We've got new procurement leadership in a number of businesses. We're really trying to make sure that we're true to our lean imperative of safety, quality, delivery and cost, in that order. We don't want to have a short-term Band-Aid that costs us long term. But it really is a tactical, muscular endeavor right now that we're working our way through.

You've heard others. You've heard some of the key suppliers talk about electronic components likely to be at least a 2-, 3-quarter challenge, maybe longer. That's important for us in certain businesses and certainly in some of our higher-margin businesses. But we're working through it. It's probably more challenging, if not more challenging than I've ever seen in my career. But we'll work our way through it. Things will level out in time. And I think that given this was an area where we wanted to strengthen our operational capabilities, while it's more challenging in the short term, we'll be better for it medium to long term.

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Operator

Yes. And our final question is from Andy Kaplowitz from Citigroup.

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

Larry, can you give a little more color into how you're thinking about Healthcare revenue and margin going forward? I know you mentioned that growth could have been 9 points higher. And you obviously have very strong orders despite the weaker revenues. So do you get those 9 points back in '22? And/or does the backlog you're building give you confidence in the stronger-than-usual revenue environment in '22?

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

Oh Andy, for sure, right? And it's not our style to try to build back a better headline here. But that's 9 points of real pressure given the supply chain issues that Nicole was just probing us on. And again, I think Carolina mentioned that the Ford ventilator effort a year ago for the HHS was a significantly tough comp.

But if you look at the 19% orders growth, if you look at what's happening both in the public and the private spheres, plus what we're doing increasingly both from a commercial and from a product perspective, we've talked about the opportunity to take this business from a low single-digit grower in the mid-single-digit range to grow margins in the 25 to 70 basis points over time.

I've got more conviction about our potential to do that than I did a year ago. Just off a U.K. trip where I had some quality time with a number of our business leaders over there, our PDx business in particular, lots of good things going on. We've got a CEO transition here in the offing that we're excited about. Kieran Murphy has done a heck of a job with that business. Pete Arduini coming in is, I think, very much committed to those types of expectations. He's certainly coming because he's excited about the potential that he sees across the GE Healthcare portfolio.

So we wish it weren't as much of a camouflage, the headline here given the supply chain issues. We'll work through it and just feel like this is a strong business that will get stronger over time.

Steven Eric Winoker ***General Electric Company - VP of IR***

Larry, we're out of time, but any final comments?

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

Steve, I know we're over. But let me just, if I may, take a moment to thank our employees and our partners around the world for what are truly extraordinary efforts here given the pandemic and the recent challenges. My thanks go out to everybody. We're operating from a position of strength today.

I also want to thank our investors for their continued support. And we certainly appreciate your interest, your investment in our company and your time today. Steve and the IR team, as always, stand ready to help and assist in any way possible as you consider GE in your investment processes.

Steven Eric Winoker ***General Electric Company - VP of IR***

Thank you. Thanks, John.

Operator

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

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