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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the General Electric Third Quarter 2019 Earnings Conference Call. (Operator Instructions) My name is Brandon, and I'll be your conference coordinator today. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the program over to your host for today's conference, Steve Winoker, Vice President of Investor Communications. Please proceed.

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

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

Before we start, I'd like to remind you that the press release, presentation and 10-Q are available on our website. Note that some of the statements we're making are forward looking and are based on our best view of the world and our businesses as we see them today. As described in our SEC filings and on our website, those elements can change as the world changes.

Please note that we'll be hosting a Healthcare Investor Day on Monday, December 2 in conjunction with the RSNA conference in Chicago. Additionally, we provided the upcoming earnings dates in the appendix.

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

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

Steve, thanks. Good morning, everyone, and thank you for joining us. I'll start off with some thoughts on our performance and our strategic priorities, then Jamie will cover the quarter in detail before I wrap with our updated outlook.

Overall, our third quarter results reflect one more quarter's worth of progress in our multiyear transformation of GE. Orders were down 1% organically year-over-year due to tough comps at Power and lower LEAP orders at Aviation in part due to the 737 MAX grounding. We ended with a backlog of \$386 billion, up 14% year-over-year. This comprises equipment of \$80 billion, up 4%; and services of \$306 billion, up 17%. We delivered strong Industrial segment organic revenue growth of 7% with growth across all businesses, except Power where Gas Power was up but Power Portfolio is down.

We also delivered adjusted Industrial operating margin expansion of 130 basis points driven by Healthcare and better controls at Power relative to last year. While margins are down 130 basis points organically year-to-date, we continue to expect to hit our full year margin



expansion target.

Industrial free cash flow turned positive, generating \$650 million in the quarter though down \$500 million from a year ago. This is ahead of our expectations largely driven by continued Power stabilization and better-than-expected progress on the supply chain finance transition. We're raising our Industrial free cash flow outlook again today, which I'll cover in more detail later.

There were a few significant developments in the quarter, including a number of deleveraging actions that I'll talk to shortly. We ceded majority control of Baker Hughes, which resulted in a pretax loss of \$8.7 billion. We completed our annual insurance premium deficiency test, resulting in a pretax charge of \$1 billion, mostly driven by the low interest rate environment.

And finally, we completed our annual goodwill test, recognizing a noncash impairment charge of \$740 million at Hydro, a Renewable Energy business we acquired from Alstom. So a number of steps to mitigate risk and clean up the GE portfolio.

But make no mistake, we still have work to do. At Power, we're focused on daily management, improving transactional services and cost-out initiatives. At Renewable Energy, we're focused on the significant delivery ramp, turning around Hydro and Grid and overall better project execution. Across these 2 businesses as well as corporate, we're investing in restructuring, and our expected cost savings remain on track. We're also moving the center of gravity from corporate to the businesses, a notable cultural shift for GE.

Moving to Slide 3. We're doing what we said we would do. In 2019, we've been hyper-focused on our two strategic priorities. First, we're improving GE's financial position, and we've taken a number of actions on this front in the quarter. At Industrial, we sold a portion of our Baker Hughes stake for approximately \$3 billion of proceeds, and we exited Wabtec, bringing in another \$1.6 billion. Year-to-date, we've collected \$9 billion of proceeds. And at Capital, we announced the PK AirFinance sale. We started putting that cash to work with a \$5 billion Industrial debt tender, and we recently announced important but difficult changes to our U.S. pension plan that will reduce our Industrial net debt by \$4 billion to \$6 billion.

Second, we're running our businesses better with an eye toward unlocking the value that clearly exists in GE's portfolio. On that front, at Power, we continue to see signs of stabilization due to better project discipline and execution. Specifically at Gas Power, organic revenue was up 3%, and we hit a major milestone with over 100th HA turbine order in the quarter. We reduce reported fixed cost 9% year-to-date as we rightsized the business for our market realities.

At Renewable Energy, we're well positioned to capitalize on the energy transition. Orders and revenues were up double digits again as we delivered approximately 1,400 turbines and repower kits in the quarter. We're seeing strength in international orders and order pricing continues to improve. We signed the first commercial deployment of Haliade-X and our largest Cypress order to date.

At Aviation, we have a strong global franchise with an installed base of nearly 70,000 engines. Service revenues in the quarter were up 7%, and we expanded our win rate on aircraft engine selection to 62% on the A320neo. While we're managing the portfolio renewal, we're still on track to deliver 20% segment margins this year. And CFM is working closely with Boeing and our carrier customers to ensure the safe return to service of the 737 MAX.

In Healthcare, we're operating at the center of precision health. We're driving new innovation, enabling our customers to improve patient and operational outcomes. For example, we received the industry's first FDA clearance to embed AI apps on a medical device for triage in our critical care suite this quarter. We also continue to expand margins, which were up 90 basis points organically driven by both volume and cost productivity.

I'd like to take a moment here to mention GE Digital. This business remains within the GE family, a growing and important P&L in its own right within corporate, which will serve customers in Power, Grid, Oil & Gas and select manufacturing industries. Under the new leadership of Pat Byrne, the team is refining its focus to leverage GE's first-mover investments in industrial software and analytics to be an important contributor to our customers' digital futures.

During the quarter, a couple of changes in the way we're operating really began to take root. And while their impact is not yet visible to



investors, I'm optimistic that it will be over time.

First, our lean transformation is underway. One of the most pleasant surprises for me has been that once I began to talk more about lean, especially after our leadership event in Greenville in June, a flood of people deep in the organization began reaching out, raising their hands, looking to help. I was at our Lynn, Massachusetts military engine plant recently and heard operators following an action work-out talk passionately about how lean triggers cultural change and greater accountability. In a different lean event recently at our MR production facility in Florence, South Carolina, teams identified \$50 million of potential savings in just 4 days. And lean goes well beyond manufacturing. GECAS, for example, is using lean to reduce turnaround time when transitioning an airplane from one lessor to another, which will save our customers money and improve our on-time delivery.

The opportunities at GE are endless, which is why the second change, our strategy reviews, is so important. This quarter, we held sessions with each of our businesses designed to answer 2 fundamental questions: What game are we playing? And how do we win? These were multiday sessions, not flybys, with robust debates about strategy and priorities aimed at growing our top line, expanding margins, generating cash and delivering innovation and customer satisfaction for our customers. Over time, our lean action work-outs will be targeted to our strategic objects and will channel the interest, the enthusiasm and skill that exists within these walls right now toward driving improved and sustainable results.

So in summary, the hard work continues. And from the inside, I'm seeing the improvements I wanted to see when we started on this path a year ago. Improvements that will yield long-term results for all of GE stakeholders.

Jamie, I'll turn it over to you.

Jamie S. Miller *General Electric Company*

Thank you, Larry. Starting with the third quarter summary. Orders were \$22.5 billion, down 5% reported and down 1% organically with strength in Renewable Energy offset by declines in Power and Aviation.

Equipment orders were down 4% organically while services were up 3%. Consolidated revenue was \$23.4 billion, flat to prior year, with Industrial segment revenues, up 3% reported and 7% organically. The biggest drivers of growth were, once again, the Renewable Energy onshore wind ramp along with Aviation equipment. Year-to-date, Industrial segment revenues are up 6% organically.

Adjusted Industrial profit margins were 10% in the quarter, up 150 basis points reported and 130 basis points organically. The majority of margin accretion was driven by the non-repeat of about \$800 million of charges we took in Gas Power last year. We saw organic expansion in Healthcare but declines in Renewable Energy and Aviation due to negative mix.

Net earnings per share was \$1.08 loss. As Larry mentioned, we sold 144 million shares of Baker Hughes. And as a result, we no longer hold a majority stake in the company. Beginning this quarter, its historical results are now reported in discontinued operations for all periods.

Upon deconsolidation, we recognize an after-tax loss of \$8.2 billion or \$0.94. We also elected to measure our remaining Baker Hughes investment at fair value, which is recognized in earnings. Continuing EPS was negative \$0.15, and adjusted EPS was positive \$0.15. Walking from continuing EPS, we had \$0.02 of losses primarily from the unrealized mark-to-market of our remaining Baker Hughes investment and our Wabtec stake exit.

On restructuring and other items, we incurred \$0.03 of charges related to restructuring and M&A costs across our segments, principally at corporate. And next, we incurred a \$0.02 charge for the \$5 billion debt tender, which reduces pretax interest expense by \$150 million per year, generating positive economics.

Nonoperating pension and other benefit plans were \$0.05 in the quarter. We also had 2 more developments, which Larry mentioned earlier. We took an \$0.08 noncash goodwill impairment charge related to Hydro, eliminating all goodwill associated with that business. And as disclosed in our last 10-Q, Hydro continues to experience order declines and increased project costs, which resulted in a



downward revision of the business's current and projected financial profile.

We booked a \$0.09 after-tax charge related to our annual insurance premium deficiency test, largely driven by a significant decline in market interest rates. I'll cover this in more detail with GE Capital later. Excluding these items, adjusted earnings per share was \$0.15 in the third quarter.

Moving to cash. Industrial free cash flow was \$650 million for the quarter and \$500 million lower than prior year. Income depreciation and amortization totaled \$1 billion, up \$600 million after adjusting for the noncash goodwill impairment, both in 2019 and 2018. Working capital was negative \$1.8 billion primarily driven by accounts receivable, which was impacted by the timing of collections from Boeing related to the 737 MAX and a reduction in certain receivable monetization programs, including continued runoff of long-term factoring and the decision to discontinue and shrink higher cost or inefficient factoring programs.

Progress payments were a usage of gas as expected driven by timing of project execution and payment milestones, primarily related to onshore wind and Gas Power projects. Contract assets were a source of cash of \$200 million as services billings exceeded revenue. Other CFOA was \$1.7 billion, which includes the Baker Hughes GE dividend, lower-than-expected Aviation allowance and discount payments in 2019 and noncash items impacting income. We also spent about \$500 million in growth CapEx. Year-to-date, Industrial free cash flow was negative \$1.6 billion, down \$1.3 billion due to many of the same pressures we saw in the second quarter, including the onshore wind ramp execution and 737 MAX grounding.

Overall through the first 3 quarters, our cash generation is running ahead of our prior year/full year outlook. Larry will speak more to the dynamics here when he addresses our outlook. Lastly, our Healthcare business continues to perform well.

Moving to liquidity on Slide 6. We ended the second quarter with about \$17 billion of Industrial cash. In the third quarter, Industrial free cash flow was \$650 million, and we paid approximately \$100 million in dividends. We received \$1.6 billion of cash net of taxes and fees related to the Wabtec exit and \$3 billion from Baker Hughes. The impact from the debt tender and other paydowns was \$5.5 billion and all other items were \$100 million.

In line with our ongoing goal to reduce our reliance on short-term funding, average short-term funding was \$4.3 billion this quarter, which was flat to the second quarter and down from \$11.6 billion in the third quarter of 2018. Peak intra-quarter short-term funding was \$4.9 billion, down from \$13.7 billion last year and also flat to the second quarter. We could potentially see some fluctuation in these borrowing levels in subsequent quarters depending on further disposition timing. Overall, our liquidity position remains strong with \$17 billion in Industrial cash, and we continued to have access to \$35 billion in bank lines.

Next on leverage. We are improving our financial position and expect to make significant progress toward our Industrial leverage goal of less than 2.5x net debt-to-EBITDA by the end of 2020. Third quarter net debt was \$49 billion, down from \$55 billion at year-end 2018 primarily driven by the \$5 billion debt tender. This number excludes increases in the pension deficit due to lower interest rates as accounting rules only require an annual remeasurement of that liability at year-end. However, at the end of the third quarter, we estimate that the pretax pension deficit would increase by about \$6 billion driven by discount rate changes offset by asset return performance and the recently announced pension freeze would partially offset this by about \$1 billion.

As we've previously said, we have substantial sources to delever and derisk our balance sheet while the low interest rate environment increases amounts required to delever under our original plan, we had planned conservatively and believe that we are on track to achieve our goals inclusive of the impact of lower interest rates on our net debt. We're putting those sources to work through the deleveraging actions, which we prioritize based on risk mitigation, economics, liquidity and achieving our optimal capital structure.

It's important to note that while our external Industrial leverage target is net debt-to-EBITDA, we also evaluate other measures internally, including gross debt-to-EBITDA, and we will ultimately size our deleveraging actions across a range of measures. You can see our current planned deleveraging actions on the right. Beyond the \$5 billion debt tender completed, we announced pre-funding the GE pension plan by about \$4 billion to \$5 billion, meeting the estimated minimum ERISA funding requirements for 2021 and 2022, and this will be completed in 2020. In addition, we plan to pay down the full \$14 billion of GE Capital intercompany debt of which we paid \$500

[million] (corrected by the company after the call) in the quarter and approximately \$1 billion of maturing long-term debt.

As it relates to the pension lump sum offering in freeze, we may realize \$1 billion to \$3 billion of noncash pension deficit reduction depending on the lump sum's participating population and the take-up rate. We continue to evaluate actions in light of the pension deficit pressure to ensure that we reduced our net debt to less than \$30 billion as planned while maintaining sound liquidity.

Walking through our segments on Slide 8, starting with Power. Orders of \$3.9 billion were down 30% reported and down 20% organically. Power Portfolio orders were down 54% reported and down 34% organically, largely driven by Steam Power System, down 49% due to a non-repeat of a large nuclear equipment supply contract.

Gas Power orders were down 17% reported and 14% organically with equipment down 32% reported driven by order timing from the first half and services down 6% reported. We booked 3.1 gigawatts of orders for 17 gas turbines, including 5 H units and 2 aeroderivative units, and Gas Power services transactional orders were up across parts and repairs for multi-outage deals. Contractual services were down and upgrades were down in large part due to deal closures timing.

Overall Power backlog closed at \$87 billion, which was about flat sequentially and up 4% organically when adjusting for dispositions. Gas Power represents \$72 billion of the total Power segment backlog. Revenue of \$3.9 billion was down 14% reported and down 3% organically due to Power Portfolio, which was down 37% reported and 15% organically, largely driven by steam.

Gas Power revenue was up 2% reported and 3% organically. We shipped 12 gas turbines including 5 H units and 3 aeroderivative units in the quarter versus 11 gas turbines in the prior year, which included 5 H units and 2 aeroderivative units. Gas Power services revenues were down 14% with contractual services down due to outage volume and mix, transactional revenues down on lower F-class outages and upgrades, which were down significantly, driven by tough comps and deal timing of convertible upgrade volume.

Operating profit was negative \$144 million, up \$532 million with segment margins of negative 4%. The operating profit improvement is largely due to the non-repeat of Gas Power equipment charges as we continue to stabilize operations partially offset by lower volume and services productivity. At Gas Power, fixed costs were down 12% in the quarter as we progress on our 2-year \$800 million fixed cost reduction target.

In all, Power is a multiyear turnaround but we're making progress. Power remains on track to deliver its 2019 outlook of organic revenues down high single digits and positive segment margins.

Next on Renewable Energy. Orders of \$5 billion were up 30% reported and up 32% organically with particular strength in international orders, up 94%. Equipment orders were up 66% while services orders were down 42%. Orders were mainly driven by onshore, up 19%, including \$500 million of Cypress orders and the offshore EDF deal of \$700 million. New order pricing continues to improve, reaffirming the positive trend we've observed over 2019.

Overall, backlog of \$27 billion was up 6% sequentially and up 19% year-over-year. Revenues of \$4.4 billion were up 13% reported and 15% organically, mainly driven by onshore volume, up 27%. Equipment revenue was up 6% and services revenue was up 62%. Total turbines and repower kit deliveries were approximately 1,400 in the quarter. Operating profit of negative \$98 million was down \$240 million with segment margins of negative 2%.

There was a significant impact year-over-year due to higher losses from consolidating the legacy Alstom JVs and from legacy contracts. We also faced headwinds from pricing, tariffs, project execution and increased R&D investment, partially offset by cost productivity and strong volume. Onshore wind was, once again, profitable in the quarter and year-to-date. We remain on track to deliver double-digit revenue growth in the full year with a solid plan on deliveries. However, as we said in the second quarter, the addition of Grid Solutions is further dilutive to our margin rate, and we expect margins to be negative in 2019.

Moving to Aviation. Orders of \$8.8 billion were down 4% reported and down 2% organically. Equipment orders were down 27% driven by commercial engine orders down 54% due to LEAP engine orders down 90%. Services orders were up 15%.

Backlog closed at \$253 billion, up 4% sequentially and 20% year-over-year driven primarily by long-term service agreements. Revenue of \$8.1 billion was up 8% reported and up 10% organically. Equipment revenue was up 11% driven by the delivery of 455 LEAP units, up 152 from last year, partially offset by CFM56 units down 75%.

We shipped 714 commercial engines this quarter, the same as the third quarter of 2018. Services revenue was up 7% driven by mix and commercial services shop visits, and total military sales were up 18%, driven by engine unit shipments, up 16%, and growth and development programs.

Operating profit of \$1.7 billion was up 3% reported on improved price and higher volume offset by negative mix. Segment margins of 21.2% contracted by 110 basis points reported and as in prior quarters, this was driven primarily by the CFM to LEAP transition, a 230 basis point drag, and Passport engine shipments, an 80 basis point drag in the quarter. This was partially offset by military growth and commercial aftermarket strength. In 2019, we're on track to deliver high single-digit organic revenue growth and segment margins of approximately 20%.

Looking at Healthcare. Orders of \$5.1 billion were up 1% reported and 2% organically. Healthcare equipment orders were flat reported and up 1% organically while services were up 3% reported and 4% organically. On a product line basis, Healthcare System orders were flat organically driven by growth in Life Care Solutions, ultrasound and services, offset by imaging, largely due to China market dynamics and longer sales cycles on larger deals in the U.S. Life sciences orders were up 10% organically.

Overall, backlog of \$18 billion was down 1% sequentially but up 5% year-over-year. Revenue of \$4.9 billion was up 5% reported and organically. Healthcare Systems revenue was up 3% organically with strong growth in Japan and Latin America partially offset by pressure in China and the Middle East. Life Sciences was up 14% organically.

Operating profit of \$974 million was up 13% reported with segment margins of 19.8%, up 150 basis points reported and 90 basis points organically. Operating profit growth was driven by volume cost and productivity partially offset by inflation, tariffs and R&D. Cost productivity was driven by continued execution on design engineering, sourcing and services productivity. Healthcare is on track to deliver its 2019 outlook, which includes BioPharma of mid single-digit organic revenue growth and margin expansion.

Moving to GE Capital. Adjusted continuing operations generated earnings of \$123 million in the quarter. This excludes the impact of the insurance premium deficiency test. Compared to prior year, continuing operations net income was favorable by \$104 million, driven primarily by lower impairments and lower excess interest cost, partially offset by lower gains. Capital ended the quarter with a \$109 billion of assets, excluding liquidity, which is about flat versus prior quarter. Insurance assets increased due to unrealized gains driven by interest rate decreases and were offset by asset reductions at the WCS and from EFS asset sales.

We completed \$2 billion of Capital asset reductions in the quarter totaling \$3.6 billion year-to-date, and we're more than halfway through the \$10 billion full year target with the signing of PK AirFinance.

We finished the quarter with \$11.8 billion of liquidity, down \$800 million from the prior quarter, primarily driven by debt maturities, partially offset by operations and disposition proceeds. We still plan to contribute \$4 billion in total to GE Capital in 2019, including \$2.5 billion in the fourth quarter. And Capital ended with \$60 billion of debt, which was down \$1 billion versus the prior quarter, primarily driven by debt maturities offset by the intercompany loan repayment and fair value adjustments.

Discontinued operations generated a net loss of \$18 million, which was unfavorable year-over-year by \$58 million, primarily driven by a prior year investment security gain on sale and an indemnity reserve release. As we look out to the fourth quarter, we expect lower earnings from Capital sequentially, driven by preferred dividend payments and lower asset sale gains. And based on year-to-date performance, we are increasing Capital's 2019 earnings guidance to negative \$300 million to negative \$100 million from negative \$800 million to negative \$500 million

On the right-hand side of Slide 9, we provide an update on our runoff insurance portfolio. And as we've said before, insurance is a



long-tailed, multi-decade portfolio that our experienced leadership team is actively managing with oversight from our reconstituted Audit Committee, including Leslie Seidman as the Chair.

We completed the premium deficiency test in the quarter, which resulted in an approximate \$1 billion pretax charge or \$800 million after-tax earnings. This was primarily driven by lower interest rates, which resulted in a lower discount rate and adversely impacted our margin by \$1.3 billion and partially offset by projected premium rate increases of \$300 million. In line with our normal practice, we will complete our statutory cash flow test in the first quarter of 2020 and similar to the GAAP test, we expect an impact from the discount rate that will be based on year-end rates. In summary, we continue to focus on reducing risk across this portfolio.

Moving to corporate. Adjusted operating costs were \$303 million in the quarter, up year-over-year primarily due to timing of higher-profit eliminations related to spare engine sales to GECAS in anticipation of the MAX return to service. Higher costs also were associated with existing environmental health and safety matters and the non-repeat of gains associated with the sale of certain intangible assets in the third quarter of 2018.

We are increasing our 2019 outlook for adjusted corporate costs to negative \$1.5 billion to \$1.7 billion, largely driven by the higher profit eliminations and increased EH&S reserves. Excluding these items, corporate costs would be in line with our original outlook of \$1.2 billion to \$1.3 billion.

Gross corporate costs continued to decrease as people, processes and accountability are further pushed down to the segments. The corporate team is making steady progress on gross headcount reductions, eliminating approximately 7,000 in 2019. And of these, about 2,000 of those are real cost out, most of which is felt in the segments. And the remainder was pushed to the segments. We continue to push control and accountability down to the businesses.

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

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

Jamie, thanks. Moving on to Slide 11. I'll first refer back that the broader dynamics discussed in our original 2019 outlook.

Top of mind is Power execution and returning the business to profitability while working through legacy items. At Renewable Energy, we're focused on delivering through the PTC cycle while managing a number of legacy projects and nonoperational items. At Aviation and Healthcare, we see continued strength in both franchises yet we're intensely focused on running them even better.

Recall our raised outlook at the half for revenue, EPS and free cash flow was largely due to better Power performance and lower restructuring and interest expense. As mentioned earlier, we've deconsolidated Baker Hughes. This lowers our EPS forecast by \$0.05 and our restructuring expense forecast by about \$200 million with no material change to our outlook for organic growth margin expansion or Industrial free cash flow. To help you digest the changes from our original guidance to our guidance today, we've included a detailed walk in the appendix.

Reflecting on 3 quarters of results, many of the trends highlighted in the second quarter still hold. We see evidence of Power stabilizing, but we're working through a number of nonoperational headwinds there. Aviation is negatively impacted by the MAX grounding, and that has largely been offset by timing-related items. Restructuring across our segments is running lower than anticipated. Healthcare is performing well.

As it pertains to earnings, we're keeping our EPS outlook at \$0.55 to \$0.65 even after adjusting for Baker Hughes, which is largely due to GE Capital earnings. For Industrial free cash flow, we're raising our full year outlook to breakeven to positive \$2 billion. Compared to our original outlook, we've seen Power stabilize, lower restructuring and interest expense and better management of headwinds. Since the midyear point, we've progressed on the supply chain finance transition, which has had a minimal impact, and Aviation is stronger than expected due to lower allowance and discount payments this year and higher service billings, which has largely offset the year-to-date impact of approximately \$1 billion from the 737 MAX grounding.

On restructuring, our expected cost-out benefits remain unchanged, but cash and expense will be lower due to a mix of timing on certain projects, attrition versus severance that allows us to reduce costs, and executing some projects at lower cost than initially planned. Next up in our operating rhythm is finalizing our 2020 budgets, where we'll continue to evaluate additional restructuring opportunities but only where the economics make sense.

All in all, we're encouraged by our progress in this reset year. But it's still early in the multiyear transformation of GE. We have more work to do to deliver our desired level of sustainable and growing free cash flow.

Moving to Slide 12. This year, we're executing against our priorities and our lean transformation is gaining traction. As we've discussed, we're raising our Industrial free cash flow guidance again. For the remainder of the year, our watch items are largely the same: sustain macro volatility, trade and tariffs, the 737s MAX and interest rates.

To close, I'd like to share some thoughts, now being a year into this job. GE is a company with vast industrial strength due to our team, our technology and our global network. In the last 4 quarters alone, our Industrial segment organic revenue growth has averaged 6%. Our global installed base allows us to be in close daily contact with customers, helping them solve important problems that they are facing, services which turn drive half of our revenue.

This positions us well, especially against the backdrop of an uncertain global economy. When we think about the relationships GE enjoys around the world, which are really thanks to the hard work of our team, the leading nature of our technologies and our uniquely rich history and brand, combined with the opportunities we see in the marketplace, let alone those inside the company to improve results and invest in growth, we see considerable value that is within our power to unlock. I'm more optimistic today than I was a year ago that we can deliver it, and I'm confident that in 2020 and in 2021, we'll see meaningfully better performance for GE as a whole.

So with that, Steve?

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

Great. (Operator Instructions) Brandon, please open the line.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And from Bank of America, we have Andrew Obin.

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

Yes. Larry, I'm going to -- I know other people will ask different questions, but you spent a lot of time talking about Renewables. And why is Renewables so important? And when are we going to see positive operating margin on Renewables and what can you take from Renewables for the rest of the business?

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

Sure. Andrew, I don't think we tried to talk about Renewables more or less than any of our 4 big Industrial segments. Obviously, Renewables is an important business. You saw earlier in the week, the IEA come out with a forecast that would suggest the renewables space could be a \$1 trillion business over the next couple of decades. Significant opportunity from a top line perspective. But as you point out, we need to deliver better profitability amidst the growth we're enjoying today, let alone growth that's down the road.

When I look at the quarter in Renewables, we saw margins down a little over 2%, down 500 basis points year-over-year. You break that down, I think what we saw really was a fair bit of encouraging news in terms of the way the team was delivering, the step up in volume, particularly onshore here in the U.S. and some of the progress that we're making on our cost productivity programs.

That said, that was fundamentally offset by a number of the legacy issues that we referenced in the prepared remarks and the consolidation of the Alstom JVs. So from there, we're really wrestling with the pricing headwinds, which I think are, again, improving but



not with today's shipments, unfortunately. We saw 100 basis points of pressure due to tariffs, and we continue, frankly, to have opportunities to execute on a number of projects better. So that's why those margins are down. But in terms of those things that we can control, so that this can be a positive margin business in line with others in the renewables space, particularly in wind, I think we, over the next several years, should be able to demonstrate not only better margins, but in turn, better cash performance.

Operator

From JPMorgan, we have Steve Tusa.

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

Just on the corporate and related to Aviation. How much of that increase in corporate did come from spare engines to GECAS? And then would you expect this kind of headwind from MAX to basically flip positive kind of over the year following the MAX coming back to services?

Jamie S. Miller General Electric Company

Yes. So Steve, when we talk about the spare engines in the quarter, specific as it relates to spares to GECAS, the corporate elimination was just under \$100 million this quarter, and we are seeing spare engine shipments higher in the quarter, about half of that -- now back on Aviation, about half of that relates to LEAP. And what we've seen in the second half, and we've seen it third quarter, we'll continue to see it in the fourth quarter, is an acceleration of the LEAP-1B shipments in anticipation of the MAX return to service. And overall, if you look at the levels we're seeing in 2019 for spare engine shipments, they are up over 2018, but we expect them to be about flat as we go into 2020.

H. Lawrence Culp General Electric Company - Chairman & CEO

Yes. And Steve, I think if you step back, right, you all know early in the life of a new engine program, we're going to see spares represent roughly 10% of sales. We'll see that at the tail end of the program. I'd say everyone is focused on a safe return to service, which puts a little bit more focus there. So that's why you see the step up here in the back half relative to the sales of spares to GECAS and others. Obviously, the benefit we take in Aviation is eliminated at the corporate level, so it effectively washes. But that's really what you're seeing.

As we think about 2020, I think we're going to try to follow Boeing's lead here when we talk about the full year cash headwinds this year due to MAX that, obviously, assumes that we don't see a return to service this year. That's just, I think, a conservative financial planning assumption we took on the last quarterly update. But as you can well appreciate, we're working very closely with Boeing, very closely with our carrier customers to prepare for that safe return to service, not only with respect to the planes and the engines that have been delivered, but those that are in inventory or on the production line today.

Operator

From Wolfe Research, we have Nigel Coe.

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

Yes. Just wanted to turn to free cash flow, and you talked -- you've disclosed \$4.4 billion of working capital headwinds in your free cash year-to-date. How does that reverse into 4Q? We normally see, obviously, a pickup in shipments so, therefore, working capital draws down. So how much of that \$4.4 billion reverses in 4Q?

And then within Renewables, progress collections, that's \$0.5 billion down year-to-date, and backlog is up materially. So I'm just curious on that dynamic. Why is progress down versus the backlog up?

Jamie S. Miller General Electric Company

So the \$4.4 billion of working capital this year, let me just talk about a little bit of the background on it and then as I go, I'll talk about what we see really reversing in the fourth quarter. First, we had inventory build year-to-date of \$2 billion. That's across Renewables, Aviation and Healthcare. That largely shifts and reverses as we head into the fourth quarter with heavy fourth quarter shipment profile. We also in receivables had a \$2.4 billion headwind year-to-date in working capital consumption for receivables. Big chunk of that is the

737 MAX. We also have factoring programs coming down for the year, too, both through the continued runoff of our long-term accounts receivable, some decisions we've made to exit or discontinue higher-cost programs. And some of that is just volume, seasonality mix sort of, as we've gone through 3 quarters, which will reverse in the fourth quarter as well.

When you look at progress, yes, we are seeing some mixing in progress between Renewables and Power. Backlog is up on new orders but progress upfront is a lower percentage. So some of that moves around a little bit in the progress line.

Operator

From RBC Capital Markets, we have Deane Dray.

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

Would love to get an update on the Power Portfolio, the Work-Outs on the individual businesses. Looked like steam had a tough quarter. And can you also clarify on Hydro? GE was in Hydro at one time. They got out of it You're back in it with Alstom. Is that considered to be core to the Renewables portfolio and that would be helpful.

H. Lawrence Culp General Electric Company - Chairman & CEO

Sure, sure. Well, let me take those in reverse order, Deane. As you know, when we talk about Renewables, the bulk of our revenue today comes from our onshore wind business. I think we like the Renewables space broadly, and we're really trying to fortify the position we have, both in offshore wind, you see that with the step up in R&D, the introduction of the Haliade-X but also other aspects, including Hydro, where frankly, the business isn't operating to its full potential today.

So it's more of a project-oriented business. It's a small \$1 billion-ish P&L within Renewables today, where we clearly are paying off those inheritance taxes, which we've referenced through the course of the year. We think Hydro can perform in line, if not better than competitors there. But there's work to do. We've got new leadership in place, and when we were with the team several weeks ago, reviewing the strategic outlook for the business in Paris, I think they see Hydro as an important business relative to our overall Renewables offering, particularly in certain parts of the world where hydropower is and/or -- is and will be a part of the energy transition.

With respect to the Power Portfolio, Deane, as you know, we really have 3 businesses there. We have our steam business, our nuclear business and Power Conversion. Clearly, when you look at the quarter, both from an equipment and a services perspective, we saw pressure. I think Jamie went through that in her prepared remarks. Clearly, a tough comp in equipment, both in steam and nuclear and we are seeing some service pressure both -- in both of those businesses. Some of that is timing-related, some of that it's just where those businesses that hit again in the energy transition.

I think we're encouraged by what we see in Power Conversion. I give Russell Stokes here a ton of credit. Russell has jumped in. He's running that business himself in addition to looking after the rest of the portfolio, running a new CFO from the outside, Glenn Ferguson. There's a lot that's underway as they look to manage that business closer to the customer while taking a good bit of cost out.

So there's a lot of work to do here, Deane, in nuclear, given the challenges there, particularly in places like Japan. We talked about steam power conversion. But I think the team is making good progress. You don't see it so much in these equipment and service numbers, but I think as we go into 2020, you're going to see improved margin and cash performance from these businesses, ex the legacy Alstom-related issues.

Operator

From Melius Research, we have Scott Davis.

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

I know everyone wants to talk about Power and Aerospace since they're the most topical, but I look at Healthcare and just curious, through your eyes, Larry, you're used to running some businesses with these characteristics of razor-razorblade characteristics. In Healthcare, once you take out Life Sciences, the margin isn't all that exciting, really. Historically been kind of a mid-teens margin business that requires a fair amount of capital and R&D, et cetera. I mean, is there a view yet that you have that where that margin ought

to be and how you get there? And maybe just comments about how historically, this is a business that really spent away a lot of the upside, so you'd get fits and starts and operating leverage but it never really stuck? Is there a focus being placed on getting this business to more sustainable, higher profitable levels?

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

You better believe it, Scott, and I think the team understands that we're going to have a different profile in Healthcare when we are on the other side of the BioPharma transaction. But that said, I think there's a lot of conviction on Kieran and the team's part, myself as well, with what we'll have on a go-forward basis, right? Here we have a \$17 billion revenue business, smack in the middle of most of that matters in health care delivery today. As you point out, mid-teens margins; good, I think, routines there with respect to driving productivity to offset price; good cash conversion. But there is no way in which this business is optimized, right? There's a lot we can do from a lean perspective here. That's why referenced the Florence facility event a few weeks ago. I think that is going to help us improve quality, improve delivery. We should see not only expense but, frankly, cash come out of that business and drive better conversion. I think if we can be smarter about where we invest, we don't have to see all that savings be spent away. Clearly, over time, you're going to see us remix this business more toward the digital, that's why referenced the AI progress with the FDA around the critical care offering. Services is an area where I think we see opportunity as well.

So going forward, I think the teams will be very focused on making sure that this is as good a business as any GE business. And given what I know about the space, Scott, I see no reason why this can't be a much stronger, more vibrant part of our company. And I hope you'll see that in Chicago when we have the Investor Day that Steve referenced in conjunction with RSNA.

Operator

From Vertical Research, we have Jeff Sprague.

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

I wonder if you could just help us with kind of the timing dynamics that were at play here. In other words, thinking about the restructuring numbers coming down, how much of that is kind of a permanent reduction of costs you expected to incur versus kind of stuff shifting to next year? And same for kind of the receivable supply chain program and aero allowances and all that sort of stuff, is there a meaningful year-to-year timing difference there?

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

Jeff, I would say on restructuring, what you're really seeing is sort of 3 things: One, the timing dynamic that you referenced, I think we are in a number of places foregoing severance in light of some attrition, which gives us an opportunity to reduce the spend, maintain the return, and then just a host of other restructuring projects where whether we plan conservatively or delivering more effectively, we're getting a better return for our dollar. So I'm encouraged by that.

With respect to timing, what that refers to specifically are the ongoing conversations and discussions that we're having in Europe with the various constituencies involved in Power. And more broadly, I think we set ourselves up to work through that during the course of the year. I think at this point, you may see some of that expense this year. It clearly will be a cash pull in 2020 and beyond. I'm not sure we're in a position to quantify that specifically today for you as those conversations are ongoing, but that's really what's happening.

We're going to continue to restructure. We'll see that. I think the quantum fade over time. But we want to make sure as we go through the 2020 budget process here in November, that every good opportunity, every good project gets a full hearing because we really want to play the long game here and set ourselves up for better margins and better cash.

Jamie S. Miller *General Electric Company*

Yes. And Jeff, I'll jump in on into the supply chain finance, some of the factoring shifts as well. And maybe I'll talk about it in the context of our guide. We moved our guide from negative \$1 billion to \$1 billion to 0 to \$2 billion, and I think the important thing to know kind of foundationally is that the first half trends we've seen are holding. So Power, continued stabilization. We see the benefit from interest. Larry talked about restructuring.

But then when you start to think about the \$1 billion this quarter, we are seeing a lower impact of the supply chain finance transition than we expected. So more than half of that \$1 billion was really due to the absence of that, which is a real positive for us. When you look into 2020, that is something that largely does not repeat or we don't expect it to repeat in terms of the planning cycle.

Secondly, we're seeing better performance across a couple of our businesses: so strength in aviation services, coupled with some incrementally better Healthcare performance. And really, when you look at the construct, that plus a little bit of the restructuring side, which Larry talked about, that really makes up sort of the bulk of how we think about the 2019 shifting, but you can glean some of the pieces going into 2020.

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

Thanks, Jeff.

Operator

From Citi, we have Andrew Kaplowitz.

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

Larry, intra-quarter, you had said that you were watching Healthcare in China and potential impacts there of the trade war. It seems like the overall business was able to absorb the impact relatively well with the exception maybe being China imaging. But can you give us more color regarding what you're seeing in China and Healthcare Systems specifically and the outlook for that business?

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

Yes. No, we certainly saw some softness there in the third quarter, Andy. Interestingly, it was more on private side than the public side of the marketplace. I think we are, in turn, planning conservatively here for the fourth quarter just given those trends and some of the uncertainty in China right now around the relatively more short-cycle nature of Healthcare broadly, certainly in our business. We have new leadership on the ground in China that is going. And Yihao Zhang is going through a number of changes in both the organization and some of our go-to-market activities. That'll take a little bit of time, I think, to put us on better competitive footing in the country as well. So as we get into 2020, I'm hopeful that regardless of the macro there, we'll see better performance from the imaging business there.

Operator

From Barclays, we have Julian Mitchell.

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

Just my question on the Power business. It looked like Gas Power lost about \$100 million of EBIT in Q3. Just looking in that business in particular on the service piece, perhaps, I think, Jamie, you'd called out Power Services productivity being an issue. So maybe give more color there and how quickly you think you can improve that productivity on the service piece?

And following up on Power Portfolio, maybe Larry, is there any kind of time frame around which you think about just an outright exit from pieces of it versus continuously trying to improve what you have?

Jamie S. Miller *General Electric Company*

So Julian, I'll talk a little bit about Power Services, and maybe I'll touch on some of the top line as well as some of the margin elements of it, and I'll break it into the 3 pieces. So Gas Power services, in the contractual book, we actually have been seeing factored fired hours up. So the fleet is running. We're seeing good utilization. But we were impacted in the quarter, both by outage counts being down as well as by different mix of outages. And so the major inspection outages were down as well, which really impacts how we think about what flows through.

In this book, we're really focused on cost to serve, meaning outage execution, how do we think about working capital management related to that. And that all brings it down to how do we continue to work closely with our customers but accrete margin over time.

The second piece, the transactional book, we are seeing revenue down. But that is remixing to higher margin. And we see that coming through as we've refocused the team on price, higher-margin work. In transactional, what is gaining revenue a bit here is some fulfillment issues and operations, and we've mentioned some of the operational issues we've had earlier in the year. They continue and that's something that Scott and his team and Larry have really been deep diving and focused on how that execution path really shifts up. Upgrades, we see good demand. The quarter was impacted by deal timing. We do expect some of that to flip in the fourth quarter. But if you pull back on services in total, expect a more positive profile in the fourth quarter. But we still see full year as slightly down, which is a little bit different than what we were seeing maybe a couple of quarters ago.

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

I would just say with respect to the strategic question around Power Portfolio, it's important to remember that when you hear us talk about driving a lean transformation of these businesses, better upfront discipline around which projects we take on, how we price them, how we framed risk, let alone how we execute and how we support them in the aftermarket. But that is not necessarily a strategic call once and for all time, right? I think our view is, we wanted to make sure we had an integrated steam business, both equipment and services. That integration is underway, let alone the improvements that we've referenced. Our nuclear business is a business where we see the opportunity to expand margins, admittedly in a relatively flattish space. And Power Conversion is a turnaround I'm excited about, given the traction I see and our monthly reviews with Russell in the business.

I think over time, those operational improvements will frankly expand the strategic optionality we have in and around each of those businesses, let alone the Power Portfolio as a whole. If and when we do something, we'll have that discussion internally before we have it publicly. But in the near term, this team's focused on making sure we deliver better performance, we have more options long term. And again, I'm encouraged by the progress that I see.

Operator

From Deutsche Bank, we have Nicole DeBlase.

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

So I just want to talk a little bit about Industrial margins. No change to the full year guidance for 0 to 100 bps expansion. Year-to-date, we have 130 bps decline. Can we just maybe bridge how you guys get there with respect to the implied 4Q guidance?

Jamie S. Miller *General Electric Company*

Yes. So Nicole, I'll just walk through maybe the macro themes on this one. And probably the most important to really look at is the second half non-repeat of the Power charges. So we took well over \$1 billion of charges in the second half last year. You saw this in the third quarter performance. We expect it to continue in the fourth quarter, but largely a non-repeat of that, which is a big lift.

The second is continued strength in aviation services and the aftermarket there. Military helps, but both of those 2 things really help us. We are seeing the LEAP/Passport impact and the transition but still largely very healthy at Aviation.

At Healthcare, we've got BioPharma growth and continued cost control at HCS. So that's favorable as well. And then as you mentioned, we do see Renewables negatively impacting our OMX. And when you start to think about that, it's the Renewable volume ramp that Larry mentioned and talked about, coupled with the Grid and Hydro project execution. But net-net, it's really the Power non-repeat and largely Aviation.

Operator

From Gordon Haskett, we have John Inch.

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

Just a question. Rough calculations, Larry, Jamie, for Aviation, suggesting maybe sitting on a pretty sizable cash advance built up over the years. First, does that create kind of future cash headwind? And when will that start? And then second, just thinking out loud. If customers start to cancel the MAX, not all of them, but maybe some, considering you've received sort of large cash advances, I think it's like half the final bill for engine production, do you have to give the money back? Or how exactly does that work?

Jamie S. Miller *General Electric Company*

Yes. So let me talk a little bit about MAX first, and then I'll talk about allowances and discounts on the payable that's built up there. So first, on the MAX, we still expect this year to be impacted to the tune of about negative \$1.4 billion. When we think about how that comes through in future periods, it is really difficult to predict. A lot of this is going to depend on exactly how the reentry into service works. And specifically, logistics, production scheduling, there's just multiple variables here around the ultimate delivery schedule of Boeing planes to customers. So that's maybe -- as you think about 2020, there's multiple scenarios that could play out there.

When I really pivot to looking at Aviation free cash flow specifically, for 2019, negative \$1.4 billion for the 737, we have seen that in our planning cycle as largely offset by 2 things: One is accrued allowances and discounts, which is basically a situation where when we sell engines, we've got contracts with both air framers and airlines, and when the discounts are offered on these engines, the payment for the engine can be from the airframer, but the payment for the discount can be paid separately to the airline. And they have a lot of timing variability, depending on how programs are launching and different production schedules. We have seen accrued allowances and discounts build this year, and we had expected at the half for that to largely reverse this year. Now based on where we are right now, we're expecting a little more than half of that 737 MAX deficit to be made up by this build in payables that then will push into 2020 and shift back down, to your point.

The other part where we're seeing strength in Aviation free cash flow is, as I mentioned before, just the Aviation aftermarket and services side of things. Just nice cash flow continuing to come through there better than we expected. So hopefully that gives you the sense for '19. And again 2020, MAX, a little bit TBD, and we do expect that accrued discounts and allowances to also shift downward, which we'll see some pressure there, but some goodness from MAX, hopefully.

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

John, I think that, obviously, we didn't come into this year expecting what has played out in that regard. Again, our primary focus is to support Boeing and our carrier customers with respect to what they -- return to service.

But with respect to the cash flows in this business, we had over \$4 billion last year despite some of the MAX dynamics, as Jamie just outlined. I think we are encouraged by the work the team has done this year. And going forward, given our market leadership position, the installed base, the new engines we have coming online, not only commercially, but frankly, the growing military business that we have, the opportunities to drive lean at Aviation, particularly with respect to improving inventory turnover and on-time delivery, I just think there's a lot of potential here given the secular tailwinds in Aviation, our position in the space to build off this cash flow base that we delivered last year. And hopefully, we'll deliver this year for many years to come.

Operator

From Morgan Stanley, we have Josh Pokrzywinski.

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

Just want to follow up on the Power order comment, Jamie, that you expect a lot of that to flip into the fourth quarter. If I recall, there was a pretty big order from Ohio that came out. Is that in the 3Q number, which I guess, would imply kind of maybe the smaller order sizes are pretty small in the quarter? So maybe just size that for us?

And then Larry, following up on your comment earlier about an uncertain macro environment. Where do you think you're really seeing that in the business? I mean, I think by and large, it's not really apparent in Aviation and Healthcare, where maybe you would see a bit more. And Power kind of has its own issues. So maybe talk about how the macro is kind of informing your thinking right now.

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

Josh, your -- if we just take those in reverse order, I would say that you're right. With the long-cycle nature of our business, right, I think the installed base, the backlog, half the business in the -- half the revenue in the aftermarket, we don't have a tremendous amount of near and short-cycle exposure. But clearly, whether -- pick the business, right, pick the newspaper. There's clearly a lot of concern out there as to where the economy is globally and what are we going to be dealing with in 2020.



That said, as we look at our position in Aviation, absent the issues we talked about, I think we like a lot of what we see. Clearly, both at Power and at Renewables, I think what's most relevant is where we are and how we play through the energy transition much more so than any economic pressure. And while there are some dynamics in and around Healthcare that I mentioned earlier, say in China, I think by and large, again, given the nature of Healthcare, while we have some short-cycle exposure to a degree, it's far less than most businesses. And as we go forward, I think we look at that 7% organic growth in the quarter, the 6% over the last 4, is evidence that even amidst the economic and political uncertainty that's out there, this is a portfolio with secular dynamics around it that on balance, should help us weather any storm that may come.

Jamie S. Miller *General Electric Company*

Yes. And Josh, on the Power Services and Power overall orders, when I was talking before about some better profile in the fourth quarter, I was talking specifically about services revenues in Power. If I really look at the Gas Power orders, we, year-to-date, have booked 12.8 gigawatts versus 7.2 gigawatts in the third quarter year-to-date 2018. So really pretty healthy for the year this year already. The Ohio order, yes, was in 3Q.

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

And remember, Josh, that we -- I think we said, even on the first quarter call, that one of the pleasant surprises is that the order book that we were anticipating materializing in Power, particularly Gas Power this year, looked like it was coming in earlier. So I think what you see a little bit relative to the year-on-year comp is just that: a strong first half, good year-to-date numbers and I think -- we think a year that, on balance, will come in as anticipated.

Operator

Thank you. And we will now turn it back to Mr. Winoker for closing remarks.

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

Great. Thanks, everybody, for joining the call this morning, and we will be available for your questions following. Take care.

Operator

Thank you. This concludes the call for today. Thank you for your participation. You may now disconnect.

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