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PRESENTATION

Operator

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

Now -- 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 Investor Communications***

Thanks, John. Good morning, all. And apologies for the delay due to technical reasons. We had to switch to a backup line. It was choppy for a lot of investors, and we wanted to make sure everyone could hear.

I am joined today for our first quarter 2021 earnings call by our Chairman and CEO, Larry Culp; and CFO, Carolina Dybeck Happe.

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

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

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

Steve, thanks, and good morning, all. Despite continued challenges in Aviation and a still difficult comparison to last year, the first quarter marked a solid start to 2021. I'm confident this sets us up well to deliver on our '21 commitments, and profitable growth for the long term.

Looking at the first quarter numbers on Slide 2. Orders were down 8% organically, primarily driven by Aviation services and Power equipment. It was partially offset by continued strength in Healthcare and Renewables as well as growth in Power Services. We're seeing better performance in our shorter-cycle service businesses. Ex-Aviation, service orders were up 6% organically in the quarter. Our backlog stands at $383 billion (corrected by company after the call) and remains a strength, with approximately 80% geared towards services, where we have higher margins.

Industrial revenue was down 10% organically. Services continued to be a main focus as they were down 14%. While services may fluctuate quarter-to-quarter, especially as we've seen during the pandemic, we still expect growth in services this year.

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Ex-Aviation, Industrial revenue was up 1% organically. Adjusted Industrial margin was 5.1%, up 110 basis points organically. Notably, we saw organic expansion year-over-year, with 3 of our 4 businesses improving as our cost actions from 2020 continue to take hold.

Adjusted EPS was $0.03, with the majority of businesses improving, offsetting Aviation. Carolina will provide more color shortly.

Industrial free cash flow was a negative $845 million. Encouragingly, this was up $1.7 billion ex-BioPharma, driven by better earnings and working capital.

In all, we're seeing continued progress, especially on margins and cash flow, and we believe these improvements are sustainable.

As we look to the second quarter, we expect Industrial free cash flow growth of similar magnitude to what we saw this quarter.

And despite ongoing volatility, as the world fights through the pandemic, the guidance we provided a month ago remains unchanged.

Turning to Slide 3. There's a lot we're doing day in and day out to build momentum across GE. During the last month, we agreed to combine GECAS with AerCap, marking a significant catalyst in our journey to focus GE on its core 4 Industrial businesses: Power, Renewable Energy, Aviation, Healthcare. And each business is critical to the global markets they serve. This transaction enables us to further strengthen the company for the long term, in closing, bringing our total debt reduction to more than $70 billion over the last 3 years, while drastically simplifying GE in a number of ways, including our financial reporting.

All the while, we've been fortifying GE's foundation, this starts first with our resilient and passionate team. They have been instrumental in driving our lean transformation forward, and I'm grateful for their service. As we scale lean across the company, we're working to deliver safety, quality, delivery and cost improvements as well as high-quality growth.

One recent example comes from Digital Services in Renewables. We heard from our customers that our quote cycle times and responsiveness needed improvement. A lean kaizen event revealed multiple systems and inconsistent processes in the way. Through value stream mapping, we developed standard work to decrease cycle time by 70%, enabling us to bid for and win more business. This has already led to more than $70 million of backlog growth. Opportunities like these for high-impact deployment of lean abound throughout our company.

We're coupling lean with a significant decentralization effort. This means managing, not just the 4 segments we report, but the nearly 30 businesses underneath them, where the work (inaudible) GE has done. This combination of lean and decentralization is maximizing value for our customers while increasing accountability at the business level. And even though it's still early in our journey, we're seeing tangible operational and financial results.

For example, at a recent operating review with Power Conversion, I was thrilled to see how the team's strategy has come together, optimizing their operations through lean and redefining their market focus. This has led to double-digit order growth in the quarter and 3 consecutive quarters of organic margin expansion.

This stronger foundation sets us up to spend more time playing offense. Our first priority is investment to drive organic growth efforts. We're improving our team's abilities to market, sell and service the products we have today. And at the same time, we're strengthening our offerings with new product introductions.

As you may have seen recently, we've had some major wins across the portfolio. In Renewables, we were selected to supply more than 530 turbines to North Central Wind Energy Facilities in Oklahoma, marking the largest Onshore Wind project in GE's history.

At Aviation, CFM secured LEAP engine and service agreements from Southwest Airlines and Scandinavian Airlines to power 100 MAX and 35 A320neo aircraft.

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Meanwhile, at Healthcare, we've launched new ultrasound solutions, the Vscan and Venue, the industry's first AI offering for cardiac imaging. These innovations are supporting clinicians who need fast, reliable insights at the point of care now more than ever.

And while we're continuing to invest in technology and innovation to serve our customers and to lead our markets into the future, fortifying our competitive position globally is of paramount importance. Over time, we will look to augment our organic efforts with inorganic investments that accelerate the implementation of our strategy and create real value for customers and investors alike.

So as we think about what we're playing for, it is the long term, building a world that works. At GE, our technology and expertise across critical markets enable us to lead along with our customers in creating a more sustainable future.

Our Renewables and Power businesses sit at the heart of the energy transition. Our opportunities were on full display last week during Earth Week.

In Renewables, we've held the #1 position in North America Onshore Wind 2 years running, and this is the fastest-growing source of new power generation capacity.

At Gas Power, we're playing a vital complementary role in decarbonizing at scale as customers shift from coal to gas.

And as we modernize the Power Grid with digital and automation solutions, we have an opportunity to have an even bigger impact.

In Healthcare, we're at the forefront of the precision health revolution. We have a leading position in many imaging modalities, and we're growing our digital and AI capabilities, which will enhance the personalization of diagnostics and therapeutics.

Take an area like cancer screening, our solutions are improving patient outcomes, helping clinicians rule out false positives, and streamlining workflows for providers and payors alike.

And as we look to the future of flight, no business is better positioned than our Aviation business. In the near term, our focus is getting people back into the air safely. And as the market recovers from COVID, we're well placed with the largest and youngest engine platform, with more than 37,000 commercial engines and more than 60% of our fleet that has not yet had a second shop visit. Underscoring the value of our platform will generate for decades to come.

As we tackle the world's most complex challenges, we're also passionate about delivering for our customers across our vast global installed base. It's our services that keep us close to our customers day in and day out and create a significant source of recurring revenue. By staying true to our purpose and our customers, we'll unlock further upside potential in growth, profit and cash generation, leading to high single-digit free cash flow margins over the next few years.

Stepping back, we're on a positive trajectory in 2021 and beyond. We're focused on delivering on our commitments, and I'm confident that our continued efforts will build a stronger and more focused GE.

With that, Carolina will provide further insights on the quarter.

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

Thanks, Larry. As you mentioned, our decentralization effort continues and our finance team is playing a critical role. We're developing and supporting a more granular operating view of our nearly 30 P&Ls and we're building lean skills to ensure the processes we're setting up are truly lean and automated.

We're also deepening our focus on cash and strengthening our operational muscles. We're especially seeing this with billings and collections.

And we're really driving services growth, a key component to unlocking improved profitability. For example, as we execute contracts,

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we're more focused on cost productivity and standard work. I'm confident this improved discipline will translate into improved results.

Turning to Slide 4. Before we dive into the results, 2 items.

First, with the announcement of AerCap and GECAS combination, GECAS has moved to discontinued operations. As a result, we booked a day one Loss on Sale on our financials have been recast to reflect this transfer, with depreciations sitting on the portfolio.

Going forward, any changes to earnings associated with GECAS in disc ops will primarily be driven by the AerCap stock price.

Second, we're planning to transition our quarterly backlog disclosures to our remaining performance obligation basis, or RPO, starting in the second quarter. This change will simplify and streamline our reporting, further aligning our key metrics to those commonly used across our sectors and reducing unnecessary extra work.

Now let me provide some color on the quarter on an organic basis. Looking at the top line. Recall that our businesses only partially felt the impact of the pandemic in the first quarter of '20. Aviation continues to be challenged, managing through market volatility, which has weighed on our overall performance.

Industrial revenue was down 10% this quarter, largely driven by services. However, ex-Aviation revenue was up 1%. We're focusing on improved services growth across the portfolio.

Healthcare equipment and services continue to be a strength. We saw increased demand as global procedure volumes recovered to pre-pandemic levels.

While Power declined and Renewables was roughly flat, these were largely driven by our increased focus on profitable growth. Examples include reducing turnkey scope in Gas Power, exiting new coal in Power Portfolio and increasing project selectivity in Renewables.

Next, Industrial margins expanded 110 basis points, with Power, Renewables and Healthcare all contributing. Ex-Aviation, margins expanded 450 basis points.

A couple of standouts: one, Gas Power services with double-digit revenue growth and significant margin expansion, and this was supported by better performance in our transactional and CSA portfolios; and two, Healthcare margin expansion. This was driven by better volume and cost productivity due to our lean efforts and expense management.

We also continue to see sustainable benefits from our cost actions, including reduced headcount of roughly 23,000 year-over-year. We are on track to realize the incremental $1 billion of benefits in 2021.

Finally, adjusted EPS was $0.03 in the quarter. This reflects $0.04 of improvement year-over-year, ex BioPharma, driven in roughly equal parts by Industrial and Capital performance.

As we work from continuing to adjusted EPS, we need to exclude the positive Baker mark as well as the negative impact of significant higher cost restructuring programs and non-operating expenses, primarily pension. Overall, we're encouraged by our Industrial margin improvement.

Moving to cash. Industrial free cash flow was negative $845 million, a use of cash and a decline from the fourth quarter, which we expect seasonally, consistent with what we shared earlier in the quarter. However, we saw significant progress across a number of our businesses with cash flow up $1.4 billion year-over-year and, ex-BioPharma, up $1.7 billion, driven by earnings and working capital improvement.

Looking at earnings, they were down year-over-year on a reported basis. However, as I mentioned earlier, earnings were up, excluding the impact of BioPharma and Baker, with adjusted Industrial organic profit up 18%.

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Moving to working capital. This was a use of $900 million this quarter. We're seeing progress across the board, with payables and inventories contributing the most of the improvement.

Looking at the flows within the quarter. Receivables were sourced from higher seasonal collections and daily management, while we also reduced short-term factoring, which negatively impacted our free cash flow by $800 million. Our focus on stronger billings and collections continued, with 2 days of DSO improvement.

For example, in Aviation Services, within our CSA portfolio, we're using value stream mapping and daily management and have improved billing timeliness by 15%.

Inventory was a use of cash of $700 million. This was largely driven by Renewables, as expected, to support second half volume. Inventory remains a key focus area for all leaders.

Take our Healthcare business, where we're improving by 0.5 turn year-over-year. When I recently visited our team in Life Care Solutions, they showed me how their Hoshin Kanri project reduced inventory by more than 5% already this quarter while delivering cost savings. We're continuously sharing these learnings across GE to inspire and accelerate further improvement.

Payables was a use of $400 million. We saw seasonally lower volume in Power and Aviation, there was a significant improvement year-over-year. Progress was also a use of $400 million as deliveries outpaced collections. Contract assets was flat as deliveries offset collections.

So working capital, without the $800 million impact of the factoring reduction, would have been close to flat this quarter. And year-over-year, working capital flow was $1.6 billion better. Overall, a significant improvement.

We're carefully optimizing our capital investments to drive long-term growth. CapEx spend was up 18% sequentially, yet down 37% year-over-year. We've increased rigor in our investments by focusing on high-return and strategically differentiated technologies, including the Haliade-X in Renewables and PDx capacity expansion in Healthcare.

In all, our efforts to improve working capital are taking hold and with additional opportunities near term. Over time, sustainable free cash flow generation will mainly come from profitable organic growth, combined with higher margins and longer-term efficient capital deployment.

Turning to liquidity and leverage on Slide 6. We've continued to solidify our financial position. This quarter, we reduced debt by approximately $4 billion. Our liquidity is strong, and we have ample additional liquidity sources for future deleveraging actions. This includes proceeds from the GECAS transaction, positive cash flow and monetizing our remaining stakes in Baker and AerCap. Post transaction close, we expect to reduce debt significantly, bringing our total reduction to more than $70 billion since the end of 2018.

Additionally, we do not anticipate any further funding requirement for the GE pension plan in the foreseeable future, and by that, I mean the end of the decade. This is due to our $2.5 billion pre-funding in 2020, our investment portfolio performance as well as the recently enacted American Rescue Plan Act.

Since the beginning of 2019, we reduced our factoring balance by $8 billion, bringing it down to about $6 billion at quarter end.

Effective April 1, we discontinued the majority of our factoring programs. As I talked about at outlook, we'll exclude the related cash flow impact going forward, which we expect to be between $3.5 billion and $4 billion. The majority of this will be felt in the second quarter.

Combining this with $3.5 billion to $4 billion with the $800 million reported cash impact in the first quarter from the normal course activity gets you to the $4 billion to $5 billion range of cash that we described last month.

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If you apply the same logic and cancel out the factoring effect from our discontinued programs in 2020, after rebaselining for BioPharma and COVID-related volume in Healthcare, you get to rebaseline free cash flow of about positive $2.4 billion in 2020.

Our 2021 reported free cash flow range of $2.5 billion to $4.5 billion includes the impact of the negative $800 million factoring in the first quarter. Excluding the full year impact from factoring, the majority of our cash flow improvement in 2021 comes from earnings.

As we reduce our reliance on factoring, we will continue to focus with further improvement on our core billings and collections capabilities, leading to better cash performance over time. And there is no change to our view from outlook, where the improvement is driven by our underlying operating performance.

Due to us reducing factoring as well as better managing working capital and cash, our peak quarterly cash needs have decreased more than $4 billion in a year, a significant improvement.

In all, we expect to achieve net debt-to-EBITDA of less than 2.5x over the next few years and maintain a strong investment-grade rating.

Moving to our business results, which I'll speak to on an organic basis. First, on Power. Our Gas Power and Power Portfolio teams continue to make progress. We're especially encouraged by the growth in Gas Power Services. Overall, Power remains on track to deliver their financial commitments for the year.

Looking at the market, global electricity demand grew 3% this quarter, driving GE gas turbine utilization and CSA billings up high-single-digits. Orders declined 12% in the quarter. At Gas Power, equipment orders were down 50%, driven by the non-repeat of a large turnkey order. However, we booked 18 turbines, up 9. And notably, service orders were up 11% with contractual and transactional growth. This was driven by higher outages and stronger commercial performance compared to the pandemic-related disruptions last year.

At Power Portfolio, orders were down 16% as we expected, driven by our planned exit of the new build coal business at Steam. This was partially offset by double-digit growth at Power Conversion. Backlog of $78 billion decreased year-over-year, largely driven by timing of equipment orders and contractual service commitments. Gas Power accounts for roughly 80% of this backlog.

Revenue was down. Gas Power was down 2%. This was driven by equipment, down 25%. We had significantly lower turnkey scope project, as anticipated, while at the same time, we shipped more heavy-duty gas turbines this quarter, up 6. And we commissioned 3.6 gigawatts of power to the Grid, including 3 HA units.

As you heard from Scott at Outlook, we've been more selective on turnkey projects and we're transitioning to more equipment projects, which is better risk-return equation over time. We saw meaningful improvement in services revenue, up 13%, due to strong transactional backlog execution and higher outages. Power Portfolio revenue was down 9%, driven by Steam. Offsetting this, Power Conversion and Nuclear were both up.

Segment margin was negative, but improving by 110 basis points. Gas Power margin was positive and expanded significantly. This was largely driven by positive mix from higher-margin services volume and reducing fixed costs. Power Portfolio margin contracted, but largely driven by Steam project execution and unfavorable legacy project arbitration resolutions. We're progressing through our planned exit of new build coal and concluded our European Works Council consultations this quarter. Both Power Conversion and Nuclear expanded margins, operational improvements continued.

Turning to Renewables. We're playing a leadership role in the energy transition while building a profitable growth business for GE. We continue to improve operational execution and scale Offshore Wind, and we remain on track for our full year commitment.

Starting with the market. In Onshore Wind, we're expecting the U.S. market to slightly decrease this year, while robust growth continues abroad.

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In Offshore Wind, the strong market trends are expected to continue through the decade. And broadly speaking, Grid is positioned to gain momentum as the energy transition accelerates and government stimulus increases.

Now on the quarter. Orders grew double digits in Onshore, Offshore and Grid Solutions, all up. Grid was the biggest driver following a large HVDC system order.

Onshore Wind services, including more than 120 repower units, increased significantly. Offshore Wind is building momentum, with more Haliade-X orders expected in the second half.

Revenue was flat, with equipment revenues growth up high single digits, offset by a significant decline in services. In Onshore Wind, equipment was higher with more than 760 units delivered, while services were down as we did not deliver any repower upgrades. However, Digital services were up significantly, excluding repower. Offshore Wind growth was driven by continued execution on EDF 6-megawatt PBG project in France. Grid declined due to deal selectivity and commercial execution.

Segment margin, while negative, improved by 310 basis points. In Onshore Wind, margin improved significantly, driven by cost productivity and execution, partly offset by product mix. In Grid, cost-out more than offset incremental restructuring expenses.

Next, on Aviation. Our team continues to position the business for the rebound, despite current market challenges. As the Aviation end market recovers, which we believe will begin in the second half, we expect to deliver on our '21 outlook: revenue growth, margin expansion and better cash generation.

GE CFM departures were down 40% year-over-year, in line with our guide from Outlook. We're encouraged that March departure levels improved significantly versus January and February, but regional pressures continue, especially in Europe and Asia, ex-China.

Orders were down more than 25%, with Commercial Services down more than 40%, but some improvement sequentially. And Commercial Engines, down less than 10%, supported by multiple large orders, including one for 22 GE9X engines.

The Aviation backlog stands at about $260 billion, down slightly sequentially. The largest drivers were Commercial Engines and Services, with approximately 400 LEAP-1B cancellations. For context, our LEAP unit backlog stands at more than 9,200 engines.

The revenue decline was driven by Commercial Engines, double -- down double digits, and Commercial Services down 40%. Commercial services saw lower spare parts sales and lower shop visits. Although dynamics varied by engine and region, shop visits were broadly in line with our guide at Outlook. In military, revenue was flat due to favorable equipment mix despite 50 lower unit shipments. Overall, engine deliveries remain pressured, primarily in Rotorcraft, and our team continues to address these supply chain challenges.

Segment margin contracted to approximately 13%, primarily driven by Commercial Services. However, decrementals improved to 19%, and margin expanded sequentially as our cost actions continue to take hold. We're on track to realize the incremental $0.5 billion of benefit in 2021.

Moving to Healthcare. We're excited about the progress we're seeing. The team's strong performance shows how implementing lean and decentralization is driving real results. Overall, market fundamentals are also improving. For the third consecutive quarter, global procedures volumes were up double digits. Demand for non-pandemic products was solid as government stimulus drove strong order growth in China, India and Japan.

Meanwhile, demand for pandemic-related products began to normalize. We're seeing elective procedures return to pre-pandemic levels, but there is still much for us to do to support our customers. Many are running at reduced capacity and have patients waiting longer than usual for screenings, treatments and procedures.

With that backdrop, Healthcare orders continue to improve. Healthcare Systems orders were up 5% with equipment and services growth. Imaging and Ultrasound improved double digits, both year-over-year and compared to the first quarter '19. And CT grew across all

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regions, while Life Care Solution orders were down as pandemic-related demand softened.

PDx demand continued to recover, with orders up 7%, driven by CT screening for cardiac disease and routine oncology and neurology screenings returning to pre-pandemic levels.

Healthcare revenue was also up. Healthcare Systems, up 7% across businesses. Two highlights: Ultrasound demand was high, with growth across most regions and all product lines. And Life Care Solutions grew again this quarter. PDx revenue was up 7% with elective procedures returning to pre-pandemic levels.

Segment margins expanded an impressive 270 basis points driven by profitable growth and continued cost reduction, while we still invest for growth, especially in Imaging, Ultrasound and LCS.

Moving to Slide 8. At Capital, adjusted continuing operations generated a net loss which was half of last year's loss. This was primarily driven by Insurance and tax, partially offset by lower EFS gains.

At Insurance, we continue to see a positive claims trend and strong investment results versus last year when we had pandemic-related marks and impairments as well.

GE Capital assets, excluding cash, were down almost $6 billion sequentially, driven by the GECAS transaction and lower factoring.

Within discontinued op, two call outs. GECAS had a net loss of $2.6 billion, which includes the Loss on Sale of $2.8 billion from the AerCap transaction, offset by about $200 million of earnings, with the collections progress on previously granted deferrals and we ended the quarter with 20 aircraft on ground. We may see levels fluctuate throughout 2021 due to the continued market volatility.

We've previously noted ongoing litigation related to our run-off Polish mortgage portfolio. This quarter, we recorded charges of approximately $300 million. This is based on the rising number of borrower losses filed and expected to be filed in the future as well as higher discount rates. We expect upcoming decisions of the European Court of Justice and the Polish Supreme Court to have an impact on the litigation landscape for Polish banks, including our run-off Polish mortgage business.

Moving to Corporate. We remain focused on leaner processes and decentralization. If I compare the adjusted Corporate costs with when I started a year ago, we are down almost 50%, most notably here are our functional costs and operations, which improved over 40% and GE Digital, focusing on driving growth and improved profitability with a strong performance from Grid Software this quarter.

Taking a step back, Larry and I recognize the positive sustainable impact that lean will create at GE. We are picking up the pace. And while it's still early, we're building momentum with measurable impact this quarter, as you've seen. This is becoming more visible at Corporate as well. We've significantly transformed how we operate, moving more work to the businesses and further streamlining the remaining corporate functions. And we have an increased focus on strategy, capital allocation, research, talent and governance.

Now Larry, back to you.

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

Carolina, thanks. Let's go to Slide 9. In summary, this quarter was a solid start to 2021. Thanks to our team, we're making measurable and sustainable progress, and we're set up well to deliver on our 2021 commitments that we shared with you in March.

Since joining GE, one of my top priorities has been instilling greater focus throughout the organization. The GECAS transaction announced last month marks an important step forward in making GE a more focused, simpler and stronger industrial company, one that's even better positioned to serve the needs of our customers and the world with leading technologies and strong service capabilities across our installed base.

As we are building a world that works, we're also creating a more sustainable future, leading in the energy transition, driving more

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integrated and personalized healthcare and enabling smarter and more efficient flight.

I hope the business examples we've shared today helped convey the real operational and cultural changes underway at GE. There are many steps, big and small, happening across our company right now that make me excited about the future. We remain focused on growth, profit and cash generation, and I'm confident in our ability to drive value for the long term.

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

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

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

QUESTIONS AND ANSWERS

Operator

And our first question is from Markus M. 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 I'll start with the bigger picture question here, Larry. So you talked more and more about playing offense and playing for the long term here. If I bring this back to free cash flow, I know that you kind of guide to 2023 at high-single-digit free cash flow margins, but you removed a lot of headwinds. Carolina mentioned that the pension headwind is gone potentially now to the end of the decade.

The factoring headwind, I think, even if you look at just the near-term here, the $4 billion to $5 billion guide that you all reflected, I think, the near-term impact is probably $800 million less. So de facto, I think you kind of implicitly increased your cash flow guide today, unless I'm misinterpreting that.

But if I take it more to the long term, right, and I look at sort of these removed headwinds, and peers in a lot of your business being significantly above that high-single-digit free cash flow margin, how do you think about the portfolio and that target in the long term?

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

Markus, a couple of comments there. Let me just level set. I think what we're trying to do today is reiterate that what we said about a month ago or so at the GECAS announcement, with respect to our outlook for this year in terms of free cash potential, the $2.5 billion to $4.5 billion, that's intact, right? So no intention to change that.

As Carolina highlighted, we did have $800 million of factoring discontinuation pressure in the first quarter that we're not adjusting for, but we do want to flag it for you because it's akin to what we will adjust for more formally the rest of the year now that we have formally discontinued the factoring program.

But I think that as you ask about the longer term, there's no question that we feel confident today about our potential to deliver on that high-single-digit free cash flow margin in '23 or hopefully shortly thereafter, right? If -- and we're really talking about, you take the midpoint of that, call it 8% on, let's say, the '19 revenue base, somewhere in the $85 billion to $90 billion range, that gets us to a $7 billion free cash number.

I think given the way we are running the businesses better today, at least compared to what I saw when I walked in 2.5 years ago, the opportunities I think we have clearly framed in front of us around the energy transition, around precision health, around the future of flight and as you highlight, as Carolina noted, a number of headwinds will dissipate over time, be it some of the restructuring in Power, be it pension - I mean what terrific news that is for us. In addition to the interest step down and the like.

So there's a lot of things that we're working on, that we're encouraged by. There are a number of things that are going to dissipate over time. And you put all that together, well, we've got plenty of work to do. So there's no declaration of victory here. I think we're just trying

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to underscore our continued confidence that we could deliver on those numbers over time.

Clearly, we need Aviation to come back. I think we're encouraged by a number of the signs there. The U.S., clearly coming back. China, above where they were a year ago, let alone '19, at this point. So that's encouraging. But certainly, other parts of the world, as you well know, are still fighting this horrible pandemic. That creates a little bit of the volatility that we referred to. But all in, we continue to believe the Aviation recovery is more a matter of when, not if. And again, with that 37,000-strong fleet out there, the youngest in the industry, we think we're well positioned to serve and to deliver results for our investors as that occurs.

Operator

Our next question is from Julian Mitchell from Barclays.

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

Just wanted to try and clarify that Q2 Industrial free cash flow comment. So is the point that when you're talking about the year-on-year improvement, we should expect of that, I suppose, $2.1 billion base, we should be thinking about a sort of $1.7 billion increase ex-BioPharma? I just wanted to make sure which sort of comparison point we were using.

And also maybe allied to that, any comments around how satisfied you are with the progress on Aviation profitability? You already hit a low-double-digit margin in Q1, and that was the guide for the year.

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

Okay. So let me start with the question on the second quarter free cash flow. So what I mentioned was that we saw the improvement year-over-year, to your point there, of $1.7 billion, excluding BioPharma of free cash flow, and we do expect to see a similar improvement in the second quarter. So that's the right way to look at it.

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

Julian, with respect to Aviation, you're right. The 12.8% op margin print in the quarter is good, all things considered, but organically down 200 basis points from where we were a year ago. I think the top line were a little softer than we had anticipated, primarily a function of services getting off to a slightly slower start. And frankly, we continue to be challenged. I think we mentioned this in our prepared remarks, on the Military side of the house, just in terms of deliveries. So we have some past due backlog there that we needed to clear, which will be helpful as well.

So as we go through the year, I think you'll see the cost efforts from last year play out. Clearly, the comps get easier. And as we get a better mix of business, with services coming back, we clear those issues in Military -- in the Military side of the business, I think you should continue to see us improve the margins from here.

But again, we're -- we really need that overall market recovery to play out as we believe it will largely in the second half -- beginning of the second half.

Operator

Our next question is from Steve Tusa from JPMorgan.

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

So just a follow-up on Julian's question. Can you just give us the base of what the factoring headwind actually was last year in the first quarter and the second quarter on an absolute basis? And then for the year, so are we -- is the $800 million you did in the first quarter plus the $3.5 billion to $4 billion in the second, is that how you get to the $4 billion to $5 billion? Or is the -- is a part of the $4 billion to $5 billion still to come after second quarter?

It's just a bit confusing. I think an 8-K with all this would be helpful. But just if you could be specific about the first quarter impact, absolute impact in '20, and the second quarter absolute impact in '20 that we can kind of figure out what the basis is.

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

So maybe let us go back to Outlook. So in Outlook, we said that we would basically discontinue the majority of our factoring programs, right? And we talked about that the impact of that would be $4 billion to $5 billion on our cash flow, right? So what you see is the $800 million of reduction that we have in the first quarter.

That's still in our numbers, because it's before we technically discontinued, right? So you have that $800 million. And then we expect 2Q through 4Q to be $3.5 billion to $4 billion, the majority of that in the second quarter. So if you take that together, you get $4.3 billion to $4.8 billion for the full year, and that's then in line with the $4 billion to $5 billion that we shared at outlook.

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

And what is the year-over-year impact of these of -- because we're talking about absolute free cash flow impact versus year-over-year impact. Sometimes, I don't know, people talk about the impact being year-over-year versus absolute. What is kind of the year-over-year impact?

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

Yes, exactly. And that's also why we're talking about it. We talked about the impact in 2021, but that's also why we're helping you to rebaseline 2020, reduce sort of from the factoring noise. And if you do that, we talked at Outlook about 2020, starting with $600 million. You rebase that for, we talked about the COVID and we talked about BioPharma to 0. If you then take out the equivalent, you'll get a positive free cash flow of $2.4 billion for 2020.

And your question specifically on the first quarter, in the first quarter in 2021, you obviously have the headwind of $800 million that you saw in our numbers here, that you then meant to adjust for. And then the equivalent of last year's reduction of those programs is about $1 billion, right? So if you do the comparison there, those are the numbers for the first quarter.

Operator

Our next question is from Andrew Obin from Bank of America.

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

Yes. And just not to talk too much about factoring, but $1.7 billion improvement you expect in Industrial free cash flow in the second quarter. So just can you walk us through how much of it is factoring drag going away?

And how much of the year-over-year improvement is earnings-driven versus other working capital improvement? And if you could just give us directionally color by segment as to what drives the year-over-year improvement, that would be great as well.

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

Andrew, so if we start with the improvement for second quarter, what we are saying is that we expect the improvement to be roughly in line to the improvement that you saw in the first quarter. And that's on a reported basis, right?

When it comes to the composition of that, we expect a healthy part of that to be profit improvement, but also working capital improvement.

Operator

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

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

Yes, let me just kind of join the free cash flow question party here. I guess my question would be, with the type of visibility that you're -- you have on Q2 at this point, the year range actually feels kind of wide now, right, certainly looking about -- looking at kind of historical patterns.

Maybe just a little color on what the big variances are in the back half, right? I know you're going to have 787 ADAs and progress

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payments moving around, like what are the really big kind of swing factors or cushion items that maybe define the lower end of that range for the year?

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

Yes, let me take that at the outset. I'm not sure I would buy into your premise that we've got the visibility that you're suggesting that we do. I think the range that we have today in line, obviously, with the range that we've shared since early in the year, captures what we know and what we don't know.

Clearly, we're waiting for Aviation to begin to snap back, that is an important swing factor for us, and I think we've been consistent talking about that. I don't think there's much of a historic whole precedent in that business given the way the pandemic is ravaging various parts of the world and, in turn, both leisure and business travel.

Clearly, we have a new administration that's doing a lot of good things, medium to long term here to help, I think, fuel our Renewables business and the growth there. But the order book, as it often is, is backloaded in Onshore and Offshore. And we -- as our customers do need to have, I think, better visibility with respect to the number of funding programs, tax policy changes and regulatory approvals, that will have real impact on orders and, in turn, down payments in that business.

So I don't want to lay out a long list, but there are a number of moving pieces here. And given the nature of our business, as you well know, a number of orders are often large and they carry with them significant cash impacts when they happen and negative effects when they don't.

So I think what we're going to do going forward is what we've done here in the last several years, tell you what we know, tell you what we don't. I think we're mindful that the factoring dynamic creates some noise here. But again, as we've said a couple of times, no change to the effect, $4 billion to $5 billion, as we discontinue the factoring programs. And operationally, we feel good about the $2.5 billion to $4.5 billion. If we can get to the high end of that range, great. If we can do better, we will. But it's a long-term game here, and that's the way we're going to play it out.

Operator

Our next question is from Nigel Coe from Wolfe Research.

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***

There's a lot of angst right now across the Industrials about cost inflation, supply chain disruptions. I did see in the appendix the -- on the Military aviation, cited some supply chain pressures. But just broadly, where are the pinch points? Is it -- would it represent a particular headwind for the second quarter or for the balance of the year? And any update there would be helpful.

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

Sure. Deane, you're touching on a couple of different things. Let me try to take them in order. From a price cost perspective, a number of moving pieces. We're clearly seeing some price pressure not unlike what you've heard about elsewhere, (inaudible), resins, certain metals. But I think we've also been able to mitigate that in the first quarter to effectively awash a number of things that we do normal course from a cost management perspective, let alone going after price where we can.

I think where we're seeing supply issues particularly are in and around where we're seeing a little bit better growth, interestingly enough, not surprisingly. Healthcare probably being #1, Renewables being the other, again, chips, resins and the like. I think right now, it's more isolated. Calling it a nuisance would be maybe an understatement, but I think we're working through that and presumably have that captured in the guide that we're reiterating today.

With respect to Military, that's a little bit of a different challenge, right? That's not a price cost play. That's not a supply chain disruption issue given the snapback. There are a number of things that we need to do a better job of inside of our own facilities. We need help from

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our supply base there so that we've got a smoother, more consistent flow into and out of -- into, through and out of the -- the manufacturing processes. So we're working on that. That's not going to be something that we declare victory on here in the second quarter. But rest assured, we're spending a lot of time working those issues with our customers in mind, first and foremost.

So hopefully, that gives you a little bit of a color for what's happening operationally. These are the challenges when you get economic recovery, and we're glad to see these challenges because it suggests that better times are on the way.

Operator

Our next question is from Nigel Coe from Wolfe Research.

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

Can you hear me?

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

We can.

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

Clearly, Nigel.

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

We can.

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

That's good news. So I want to ask a question on Insurance. Obviously, GECAS goes a long way to sort of making the balance sheet a lot simpler. Insurance seems to be the next logical step. And I'm wondering if some of the improvements we're seeing in claims experience, obviously more equity buffer there, rising rates, whether that means that Insurance is even close to being on the table at this point.

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

Well, Nigel, I would say that a number of those trends clearly are encouraging and helpful here in the very near term. I'm not sure that we're quite ready today to suggest that all of that means that we could do something along the strategic dimension with Insurance. I think we will continue to manage premium. I think we'll manage claims, let alone the investment portfolio, as thoughtfully as we can as long as that run-off liability is in our hands.

But I do think that given that the curves have more or less played out as we remodeled them a few years back, clearly you've got the COVID effects, GE is in a very different place today. I'm optimistic that we'll continue to explore strategic options in and around insurance, and we'll see what happens. I don't want anyone to bank on that as a dead cert. But by the same token, I think what you've heard us say for some time is we're very keen to focus on our core 4 Industrial businesses. Insurance is not inside that perimeter. So if and when we have an opportunity to do something smart, creative and strategic around Insurance, rest assured, we'll give that our full attention.

Operator

And our next question is from Josh Pokrzywinski from Morgan Stanley.

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

Just Larry, going back to a comment I think you made on outlook about shop visits in Aviation and maybe not using that as a single point metric. That scope is also an important factor. Just given that your comment earlier that Aviation is kind of an important swing factor in the second half, how are you seeing that scope or kind of dollar per shop visit evolve? Is that trending within your expectations? And any trend line there that we can point to that say that things are getting sort of better or worse as the world unfreezes?

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

Well, I think the expectation, Josh, is that things will get better in terms of, not only, if you will, volume of shop visits, but scope or the value of a shop visit. That said, there are different types of shop visits, right, some of which we perform, some of which we don't. I think

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we've got better visibility, clearly, when we're doing all the work. I think that is playing out as we would have anticipated. You well know a number of cross currents and pressures there in the short term, as airlines' battle with COVID.

We've got less visibility on the channel side of things. And I think we clearly see signs that over the last several quarters, a number of our partners have brought inventory levels down. That doesn't necessarily mean a scope reduction on the part of the shop visit being performed, but it does have a knock-on effect relative to the value for us in the very near term. But like any distribution or third-party-related business I've ever seen, you see those behaviors in the downturn and then you get a lift off that base. And that is part of what I think we will see. That's part of what we are assuming we will see as we see the snapback in shop visits going forward.

But that all needs to play out. Again, a number of encouraging signs in certain markets, the U.S. and China, first amongst them. But clearly, some signs in places like India, like the rest of Asia Pac, parts of Europe, that are of concern and need to stabilize before they improve.

Operator

Our next question comes from Andy Kaplowitz from Citigroup.

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

Larry, could you give us a little more color into how you're thinking about execution in Healthcare? I know you said in your Outlook call that you're only going to increase Healthcare margin for the year by 25 to 75 basis points. But as you said, it's up 270 basis points organically.

So did you, for instance, not increase R&D yet as much as you thought? Are you seeing just better mix? And I know it's early, maybe you're a bit worried about supply chain, but could that margin forecast that you have in Healthcare end up being quite conservative?

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

Andy, I would say that, credit to the team, we have really 3 quarters here running where, despite a choppy, somewhat unpredictable top line given the pandemic, they've done a heck of a job on margins and cash, right? And I just think that is a function of a lot of the lean work we've talked about. That's probably our operating segment where we have pushed decentralization the furthest to date. And I do think we're seeing some early results there.

There's no question that they've gotten off to a good start, right? Orders, up 5%. Let's remember though, it's a bit of a Dickens' dynamic, right, 2 cities, pandemic-related products, well off where we were a year ago. But the core Imaging and Ultrasound franchises, from an orders perspective, are up over 20% year-on-year in the first quarter. So it gives you a little bit of a sense of the play there, and that's really where precision health happens. With due respect, it's not ventilators and patient monitors. They have a role to play, but it really is in and around CT, Ultrasound and the core Imaging products.

I think as we go forward, while we're encouraged by the 270 bps, if we are getting a market snapback more than we would have anticipated and if we see that being sustainable, in addition to the operating improvements we're going to make, I think what you'll see us do, Andy, is, frankly, try to temper the margin expansion this year and look to put more money back into the business. In no way does that suggest we have not been funding those opportunities that we have wanted to, but you have to follow really the history of the last couple of years, right? We were prepping for an IPO.

We've pulled that off. Sold BioPharma. That's a distraction. Getting back to basics. Head long into a pandemic. We're really, I think, getting into calmer water in Healthcare, which gives us an opportunity, now that I think we're proving we can deliver on margins and cash, to drive growth, put more money into it, but make sure those are good investments, be it in sales force additions, be it in digital, be it in new products, right?

So we're not going to call that today, but don't be surprised if we continue to see good top and bottom line performance, that we call off some of the outsized margin improvements so that we're putting that back into the business and have a good '21 but also a good '22, a good '23 in a business that I think more people are going to appreciate as a real value driver for GE going forward.

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

John, we're late at this point. Why don't we take one last question and then we'll call it and follow up with everybody else offline?

Operator

And we have it from Scott Davis from Melius Research.

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

We -- you guys talked a lot about lean and you talked about the turnaround, talked a little bit less about price. How -- and I guess it's a different number of business, I'm sure, but how are you going about changing kind of the historic bidding process? And how big of an importance? I mean, I know you did mention price a few questions ago, but how important is price to -- particularly net price to the turnaround and things like Renewables?

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

Well, I -- in Renewables, Scott, if we just focus there, when we talk about selectivity, that really is about price and margins, but also about terms and conditions, which I think of as really, if you will, risk that isn't necessarily modeled, but can come back and course through and wreck the P&L if we're not careful.

So a good bit of what you see happening in Onshore Wind, and I think increasingly in Grid, is a little less of a -- an aggressive pursuit of the top line with more of a balanced approach to go after the business where we're well positioned, where we can serve and make a little bit of money, hopefully, a little bit more money over time, but also have a less -- have a better risk profile, right, to make sure that we're in the geographies, we're in the applications where we have higher confidence. So it's not priced the way it is in Healthcare, obviously.

But if you go through our deal review process, I think you would see that selectivity in those 2 areas in Renewables, and it's very much the same process we are driving across the organization. Now there are plenty of things that we'll do in the short-term. Price where we can, surcharges. A number of our long-term contracts across the company have inflation-based escalators in them, which helps us in environments like the one we may see play out here in the next couple of years. But we're really just, again, trying to pursue the quality business across the portfolio where we can serve the customer well and do that in a way that drives margins and cash for our investors.

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

John, I think we're going to have to call it at that point. To everybody, I want to thank you for your patience at the beginning of the call. My team and I stand ready to help clarify your questions. I know there's some complexity that people are trying to work through on the factoring, which we've tried to clarify, but we're available to help really get it down and fine-tune it for everybody, okay? So I look forward to speaking to you, and have a great day.

Operator

Thank you. Ladies and gentlemen, that concludes today's call. Thank you for participating, and you may now disconnect.

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