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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the First Quarter 2022 General Electric Company 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 Relations. Please proceed.

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

Thanks, Brandon. Welcome to GE's First Quarter 2022 Earnings Call. I'm joined by Chairman and CEO, Larry Culp; and CFO, Carolina Dybeck Happe.

Keep in mind that some of the statements we're making are forward-looking and are based on our best view of the world and our businesses as we see them today. As described in our SEC filings and on our website, those elements may change as the world changes.

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

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

Steve, thanks, and good morning, everyone.

I'd like to start by addressing the devastating war in Ukraine. The GE team stands proudly with the people of Ukraine. As we shared last month, we have suspended our operations in Russia with the exception of some essential activities, primarily in Healthcare. We've also made a multimillion-dollar contribution through philanthropic commitments and medical equipment to assist those who have been directly impacted by the events. I'm inspired by the more than 50 GE employees in the surrounding regions who have opened the doors of their homes to Ukrainian refugees and have volunteered their time to help with other refugee efforts.

Now let me turn to our results, starting on Slide 2. I'm proud of how our team drove improved services, orders, and cash as we managed through increasing challenges in the first quarter. Orders were up 13% organically, with strength in both services and equipment and we saw double-digit growth in Aviation and Power. Revenue was up slightly, driven by growth in higher-margin services in all segments. We saw continued momentum at Aviation with revenue up double digits. This however was largely offset by supply chain constraints in all segments, especially Healthcare and Aviation, U.S. policy uncertainty driving lower Onshore Wind North American deliveries at Renewables this quarter and continued selectivity at Power.

In particular, selectivity, being more disciplined about what we sign up for, taking a closer look at the margins we underwrite and not competing everywhere, continues to be a critical element of our strategy at Power and Renewables. We're focusing on business that's aligned with our long-term growth and profit objectives.

As you've been hearing from many other companies, we're operating in a challenging macro environment. Collectively, supply chain issues, the Russia-Ukraine war and China COVID impacts adversely affected revenue in the quarter by about 6 percentage points. I'll provide more detail shortly on these factors, and more importantly, the actions we're taking to mitigate them.

Adjusted operating margin expanded 110 basis points, driven by higher services mix and continued cost out. Both Aviation and Power margin improved substantially, while Healthcare and Renewables were meaningfully pressured due to both inflation and supply chain [constraints] (corrected by company after the call). Strong services growth and margin expansion led to an adjusted EPS of $0.24, up 85% year-on-year. Free cash flow was roughly negative $900 million, as expected, given our seasonality. This was driven by receivables and inventory build for the second half and supply chain constraints. Importantly though, this was a $1.7 billion improvement, excluding discontinued factoring. Overall, services are recovering across our portfolio, our total orders are strong, and our cash generation continues to improve.

Turning to Slide 3. At our Investor Day in March, we discussed some of the key risk factors that drove the range in our outlook. Since then, we're experiencing increased pressure from inflation, Renewable Energy and the Russia-Ukraine war. We're also watching 2 evolving areas, namely additional supply chain pressure and recent COVID impacts in China.

We're holding the outlook range we shared in January and working through these pressures I just outlined. But given the fluidity around the duration and magnitude of these factors, we're trending toward the low end of that range.

Carolina will run through the dynamics by business shortly, but let me spend a moment on Renewables. As Scott Strazik shared last month, our financial results here have been unacceptable, but they are fixable. First, continued U.S. policy uncertainty, along with higher prices, has reduced near-term demand in our profitable North America Onshore Wind business. Second, inflationary pressures are impacting GE with higher material and logistics costs. Third, proven and new leadership with Scott and Philippe Piron is transforming the business fundamentals, largely using their Gas Power and Power Conversion playbooks in their new roles.

This all starts, of course, with what's in our control. We need to run the business better, and that's something we know how to do. We're using lean to improve safety and quality and product cost. We're taking an even harder look at our cost structure to size the business for the new realities. We're now managing the business in a more decentralized manner, closer to our customers as well as improving our own execution. We're being more selective on deals internationally, with our price and market focus on defined geographies where we've identified product fit, services opportunities, and an ability to execute. This is already yielding improved order pricing, which was up high single digits in the quarter in our Onshore International business.

These actions won't materialize in our results right away, but we do expect Renewable Energy to return to being a profitable growth business over time. And rest assured, this is a business that's critical to the energy transition, thus one positioned for long-term growth.

More broadly, in all of our businesses, we're driving growth, price and cost out. We're growing our more profitable services businesses, reconfiguring our supply chains, and leading with innovation while increasing R&D spend. We're also raising list prices and price floors. And in services, we're utilizing escalation clauses in our agreements. And we're focused on sourcing and productivity to reduce cost. Power, for example, continues to deliver profit and cash, supported by price escalation in our CSAs, an improving Steam business, a disciplined underwriting strategy and operational improvements despite the fulfillment challenges.

And we're embedding lean deeply across GE, changing the way we work for the better. You've heard me talked about the core principles of lean before, which is all about serving the customer, eliminating waste, and prioritizing ruthlessly.

Earlier, I mentioned 6 points of pent-up revenue. We need to work through to execute on the demand we're seeing, especially in Aviation and Healthcare. Let me give you a few quick examples of what we're doing to manage through the well-documented supply chain challenges out there. We hosted our Investor Day at Gemba, showing up close how lean is transforming the company. Many of you saw at our Aviation facility in Greenville how our team performs complex machining operations and detailed inspections on high-pressure turbine blades. Here, we're focused on reducing the site's blade delivery lead time. The team has used lean to improve the plant layout and create standard lines, improving part flow. These actions have reduced lead time by more than 10 days, and we're targeting an additional 10-day decrease. Through this work, overall inventory has been reduced as well.

Our Military business is also making progress. For the T700 program, we've improved first-time yield in key lines by about 40% and shipments increased more than 35% sequentially. This supported high single-digit revenue growth at Military in the quarter, with more improvement to come as we apply these learnings to other engine programs.

In Healthcare, our Ultrasound team shifted part of their work cadence from make to stock to make to order. This has simplified planning and execution, optimized infrastructure cost, and reduced lead time by 30%. Importantly, the team has also increased inventory turns by 50% since 2019, removing the Muda, or the waste, in the system. And while lean is always important, it's during these dynamic times that lean really contributes and differentiates us in the eyes of our customers.

In turn, as we make these kinds of continuous operational improvements, we better serve our customers and set ourselves up to reinvest for growth, driving innovation across GE, where we have significant impact with our customers.

Just looking at what we market, sell and service today. At Renewables, we completed the Traverse Wind Energy Center with Invenergy recently. This is the largest wind farm constructed in North America in a single phase, and it's powered by more than 350 of GE's 2-megawatt platform turbines.

At Aviation, we're developing technologies for the future. We've recently reached 2 key engine milestones. Our adaptive cycle XA100, with the second engine to test fired up in March, and our first T901 engine tested successfully in March as well, achieving max power, with performance matching our pretest predictions.

We're also introducing new products, like Healthcare's Edison Digital Health Platform. Powered by AI, this platform will aggregate data from multiple sources and vendors to help reduce staff burdens and improve the delivery of care.

And at the same time, we'll continue to complement these organic investments with inorganic activity to improve our growth potential, whether with an acquisition like BK Medical or a sale, as seen this quarter with part of Steam Power's nuclear business.

In summary, we're taking action in this difficult environment to serve our customers while investing in tomorrow's innovation. We're using lean principles to improve our results and our culture. We're confident this work is improving our operational and financial performance while fortifying our competitive positions around the world, ultimately, unlocking further potential across our company.

And with that, Carolina will provide further insights on the quarter.

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

Thanks, Larry. Let's dive right into our results.

Turning to Slide 4. I'll provide color on the quarter on an organic basis. Overall, orders were strong when revenue up 1% remained pressured, especially in Renewables due to U.S. onshore. The constraints that Larry detailed, including supply chain disruptions, Russia-Ukraine, and China, weighed on our ability to ship, which further hurt revenue. Taken together, these constraints reduced the total growth by about 6 points. Plus, our selectivity actions impacted revenue by another point. It's important to highlight that this was largely an equipment dynamic. And services remained strong, up 15%, with growth in all businesses. Notably, Aviation and Commercial Services rose 37% as the market recovery accelerated.

We continued to enhance profitability, expanding our adjusted margin 110 basis points, reflecting the mix shift to higher-margin services and continued cost productivity.

On the positive side, both Aviation and Power expanded with more than 300 basis points, driven largely by favorable services mix. Within Power, Steam showed significant expansion, reflecting our strategy to exit less profitable segments like new build coal as well as benefits from prior cost actions. There was approximately 200 basis points of additional margin headwinds from inflation and logistics costs net of sourcing actions at the total company level. This was greater than expected, especially in our shorter-cycle businesses like Healthcare. While we achieved positive pricing on deliveries this quarter, particularly in Aviation and Power, it was not enough to offset inflation.

Despite the tough macro environment, we are continuing to prioritize investing in the future, with R&D up double digits. We remain focused on leading with innovation through high-return, strategically differentiated technologies, such as Aviation next-gen programs and Healthcare Imaging platforms like the CT photon counting.

Finally, we increased adjusted EPS 85%, driven by margin expansion. In the standard work from continuing to adjusted EPS, I'd call out 3 additional adjustments this quarter. First, separation costs related to the planned business operation; second, the asset impairment due to our previously announced plan to sell the nuclear activities within our Steam business to EDF; and third, Russia and Ukraine charges, primarily related to sanction activities at Aviation and certain Power businesses. In all, we delivered significant order growth and continued margin expansion this quarter.

Moving to cash. Free cash flow was negative $880 million, a use of cash which we expect seasonally. This was an improvement of $2.5 billion year-over-year on a reported basis or up $1.7 billion, excluding discontinued factoring programs. The improvement was largely driven by lower interest expenses and derivatives on reduced debt, as expected, as well as improvement at Aviation and Power, in line with earnings growth and utilization. This was offset by significant headwinds, including supply chain disruptions.

This quarter, working capital was the biggest component of negative free cash flow. And looking at the dynamics, receivables was a use of cash. This was driven by growing CSA billings through the quarter at Aviation and supply chain constraints, driving higher deliveries late in the quarter. Inventory was also a use across the businesses of $1 billion. We expected inventory to grow in the first quarter as inventory was built to support second half volume, but this was further impacted by material shortages, delaying shipments of finished goods.

We still see opportunities to improve both inventory turns and receivable DSOs. In this challenging environment, it is much harder to implement though, but we are still seeing pockets of improvement. Take the Onshore Wind North America. Our team in Pensacola, Florida held a case and event focused on hub costing. Using standard work, they reduced lead time to prep the hub costing for the assembly line by 80%, so from 9 hours to under 2. And as a result, the team also increased productivity by about 50% and reduced inventory by more than 80%.

Contract assets and progress collections were a source of cash. Strength was driven by utilization, outpacing service visits in Aviation and Power as well as progress payments in Aviation and Renewable Energy.

In all, our efforts to improve working capital management are slowly taking hold despite the difficult supply chain environment. We see real opportunity for the company to build on this momentum, keeping us on track to reach more than $7 billion of free cash flow for 2023.

Our success in strengthening our balance sheet and improving cash flow provides us with more optionality to drive value, both through growth investments and capital return initiatives. To that end, our Board recently authorized up to $3 billion in share repurchases as a potential capital allocation alternative.

Moving to the businesses. Aviation results reflect continued recovery in commercial markets as demand remains strong. However, supply chain disruptions presented headwinds to our top line performance this quarter. This will be a key watch item as we progress through the year, but we still expect improvement across the business as deliveries and shop visits ramp. For the quarter, orders grew significantly, with both Commercial Engines and Services up substantially again. Military orders were down, largely due to a tough comp in the previous year when we recorded big CF6 and T408 engine wins. Demand remains robust. Revenue was up due to meaningful growth in Commercial Services, again, the shop visits up 18% year-over-year. Growth in shop visits this quarter would have been even higher without the material availability and fulfillment issues we experienced.

Military was up as lean improvements begin to materialize. As we apply the T700 learnings across other programs, we expect tangible progress through the second half of 2022. Commercial engine revenue was down double digits, driven by supply chain disruptions and lower production rates on GEnx. You can see the impact of wide-body mix here as engine shipments were down just 4% year-over-year, with LEAP narrow-body up 27%. The supply chain constraints were mainly related to labor and material availability due to COVID disruptions in our facilities and at our suppliers, which we're actively managing.

Segment margin expanded 310 basis points to 16.2%, primarily driven by Commercial Services growth as well as positive pricing and productivity. This was partially offset by higher LEAP engine shipments, inflation, and additional growth investments.

Looking ahead at the remainder of the year. We expect demand to remain strong as the market continues to recover in most parts of the world despite uncertainty in China due to the recent COVID impacts. We're managing through this and the supply chain disruptions. We still expect shop visits to ramp through the year up to 25%, driven by the ongoing recovery and customer confidence. And this supports the total year growth of 20% or more.

Moving to Healthcare. Market demand continues to be strong, though the first quarter was impacted by supply chain and inflationary challenges. Orders were up high single digits year-over-year. This was driven by high single-digit growth in Healthcare Systems and mid-single digits in PDx. Elective procedure volumes recovered from January. COVID cases subsided in February and March, with volumes improving sequentially, though hospital staffing shortages continue.

Revenue was up 2%, with Services growing low single digit and Equipment flat. Growth was impacted by the continued supply chain constraints, primarily in electronics; COVID impact in certain China regions, further limiting what we can buy and ship and affecting revenue toward quarter end; lower volume in Russia and Ukraine, a region that accounts for about 2% of Healthcare's annual sales. And finally, COVID has delayed site readiness and some equipment installations, mainly due to customers' labor and construction material shortages. Absent these constraints, we estimate that the revenue growth would have been about 7 to 8 points higher or a year-over-year growth of approximately 9%.

Segment margin was significantly impacted by increased material and logistics inflation, which net of our sourcing actions resulted in a headwind of about 4 points. We've been leveraging every tool at our disposal within our control. This includes: price actions, which are showing early success; qualifying alternative parts; redesigning product configuration; and reducing discretionary spend. The Healthcare team remains focused on innovation and commercial growth investments, with R&D investments up double digits this quarter. A couple of key solution highlights from the quarter include: the FDA approval of the End tidal Control software platform to automate anesthesia delivery and a subscription model for our handheld ultrasound tools.

Looking ahead, our current view at Healthcare is that supply and inflationary challenges will persist at some level through 2022. Sequential improvement depends on supply chain constraints easing, especially in China, and our ability to leverage lean to improve output and strengthen our pricing discipline. We are working to offset headwinds with price increases. But given product fulfillment timing, this will likely have a more meaningful positive impact in the second half. We also continued to manage SG&A and discretionary costs to improve margins. Our supply chain constraints is Healthcare is well positioned to achieve high teens to 20% margins over time.

Turning to Renewables. Our results were challenging. So let me give you more context. We're seeing pressure in the U.S. Onshore Wind, largely due to the PTC dynamics, and higher prices suppressing demand as customers delay decisions. Grid is positioned to support modernization needs as demonstrated by our contract this quarter to supply a digital substation for the Empire Offshore Wind 1 project. And we've started to see increased interest within Europe as countries recognize the need to meet their energy goals.

On the quarter, orders were down double digits. Onshore equipment orders decreased, consistent with the inflation-driven customer delays and the U.S. market decline. Our selectivity strategy is impacting both Wind and Grid. Grid was also down as we lapped the large HVDC order versus last year. However, with automation orders remain strong, up double digits. And overall, services grew mid-single digits.

Revenue declined, with all businesses down as we saw lower equipment revenue with 280 fewer wind turbine deliveries year-over-year. Grid was also down due to increased selectivity. This was partially offset by significant services growth, primarily driven by Onshore repower. Segment margin declined substantially, driven by volume reduction in our most profitable market, U.S. Onshore, combined with cost inflation in materials, such as steel and transportation costs across the business. Onshore Wind margin declined and was negative, pressured by volume, mix and the new product transitions. We continued to transition to newer product offerings internationally and executed on lower-margin projects in North America. On the positive side, we saw benefits from lower cost and savings associated with prior restructuring projects across our businesses.

At Grid, margins improved slightly with the restructuring benefits, offsetting lower volume and our rundown of low-margin legacy backlog. Today, due to lower volumes in Onshore Wind North America and the additional inflation we've seen, we expect Renewables to be below the outlook range. The business full year result will depend largely on North America volume, the inflationary environment and execution of cost and price actions.

Overall, these results are disappointing and we know we have a lot to do here, but we have a proven playbook and a leadership driving price to market and selectivity and taking a hard look at the right cost structure. Long term, we're confident the team will drive profitable growth given the market demand for renewable energy generation as the world adds 1,000 gigawatts of wind capacity in the next decade and our strong portfolio.

Moving to Power, where our team is driving operational improvements. Better results reflect progress with Gas Power, Steam, and Power Conversion as lean takes hold, positioning the business for long-term success. Global gas generation and GE utilization remained resilient, up mid-single-digits as the market manages through the uncertainty and disruptions in Ukraine. Despite recent price volatility, gas continues to be reliable and economic source of power generation. And over the next decade, we expect the gas market to remain stable, with gas generation growing low single digits. Orders were strong, and we improved the quality of the backlog for the future. Significant growth in equipment was driven by large H-class order, with continued aero momentum. Our new business underwriting remained disciplined as we grow our backlog profitably. Services orders were also up, driven by gas, with growth in both our contractual and transactional business.

Revenue was down mid-single digits, primarily driven by equipment as we shipped 3 fewer H-class units year-over-year. This was consistent with our backlog ship dates, which will result in back-end loaded equipment revenue this year. Aero continued to grow, shipping 7 more units versus last year. And services was up 1%, driven by Gas and Power Conversion. And recall, we deconsolidated the Baker aero joint venture last year, so that is now excluded from our organic metrics.

Segment margin expanded 360 basis points. Gas Power margin was positive and improved. We are seeing progress in Steam with meaningful margin improvement due to the increased focus on services, reduced cost structure, and project and legal charges from last year that did not repeat. Similarly, the focus on services and selectivity at Power Conversion generated positive margin, making 4 quarters of profitability.

And for 2022, we expect to deliver margin expansion, driven by Aero deliveries, transactional services and continued improvement in Steam. And while we expect a dip in our CSA revenue, driven by a lower planning outage profile in 2022 really based on multiyear technology cycles, we expect to increase next year. And we expect continued strong service fleet utilization and cash generation.

Power remains on track to meet its full year outlook, though the team faces a relatively higher exposure to Russia than the other businesses, with Russia comprising of about 4% of revenue at high incremental margin. Importantly, our commitment to selectivity and operational execution is enabling us to win the right orders, grow services and increase free cash flow generation.

Finally, I'll spend a moment on Corporate. As a reminder, we rolled the remainder of Capital, including EFS, under Corporate. Adjusted corporate costs, which we expect to be uneven through the year, decreased by more than 40% year-over-year. This was primarily driven by better EFS performance and improvements in functions and operations.

While excluded from our adjusted results, Insurance net income was approximately $180 million, up year-over-year. This was driven by favorable claim experience in our LTC portfolio and continued investment return favorability. This quarter, we also completed our annual cash flow test. As expected, we funded $2 billion in line with permitted practice. Additionally, our team is preparing to implement the industry-wide FASB accounting standard beginning in January 2023. As disclosed previously, this will result in a GAAP charge but does not impact projected cash funding. At Q2 earnings, we'll provide more detailed update.

In parallel, we are adopting the LTC first principles approach, which complements the FASB standard and includes incorporating more granular modeling assumptions. This is expected to impact our GAAP LRT margin, but we expect the margin to remain positive. And in addition, we do not expect changes to statutory reserves to regulatory capital or projected funding.

In discontinued operations, we have our runoff Polish BPH mortgage portfolio, with a current gross balance of $2.2 billion. This quarter, we recorded charges of about $200 million, mainly driven by more adverse results for banks in the ongoing litigation with borrowers. This brings the total litigation reserves related to this matter to approximately $900 million.

Stepping back, we are managing through an increasingly difficult macro environment. We are focused on what's within our control by leveraging lean and digital tools to improve our operations. As those improvements take hold, we'll drive sustainable, profitable growth and free cash flow, enabling us to deliver value for shareholders and strengthening GE for the long term.

Now Larry, back to you.

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

Carolina, thanks.

Before I close, I'll briefly touch on the real progress we're making on our plan to create 3 independent investment-grade industry leaders.

As always, it starts with our team. As we shared at our Investor Day, we've added 3 new Board members: Steve Angel; Bella Goren; and Tom Mihaljevic, who bring deep domain expertise in our key industries. And we're delighted to add to our existing leadership bench, Scott Reese, who joined as CEO of our Digital business, which will be part of GE's Global Energy portfolio going forward. And in Healthcare, we welcome Chief People Officer, Betty Larson, and General Counsel, Frank Jimenez.

We remain very enthusiastic about the opportunities these spins will unlock for our already strong franchises as they will help drive greater focus, accountability and alignment with our customers and the markets they serve. We're committed to making sure each proposed company is set up with an investment-grade rating, strong capital and governance structures, and best-in-class talent that will position them for long-term success.

As you heard from our Healthcare leaders last month, planning work for the spin-off is well underway, and we're on track to launch Healthcare early next year. We've received positive feedback from our customers and many investors. And we have dedicated cross-functional teams working through stand-alone operating and capital structures, governance branding and a range of other work streams to ensure operational readiness. We have more than 1,000 people today engaged in the separation planning work, moving forward with purpose in important areas. We're progressing the carve-out audits, and we have finalized the IT infrastructure and legal entity separation plans. A lot of work has been completed, more to come, but we're on our way.

Pete and his leadership team are focused not only on successfully executing the intended spin, but also deeply embedding lean and developing long-term plans to accelerate top and bottom line growth as an independent company.

At the same time, GE remains focused on serving our customers. The majority of our teams are fully dedicated to running the business and driving lean improvements to further strengthen our foundation ahead of the spins.

As we move forward, we're confident about our path to create 3 outstanding companies well positioned for the future, with global leadership positions, lean cultures and innovation prowess to solve for the critical needs of our customers.

I'm grateful for the focus and dedication of the GE team. I continue to be inspired by their extraordinary commitment. I'm excited about our ability to realize the full potential of these businesses as we move forward.

To close on Slide 11. It's been a busy start to the year to say the least. This quarter presented its challenges with rising inflation, Renewable Energy and Russia-Ukraine chief amongst those challenges. And we continue to monitor additional supply chain constraints and the COVID impacts in China. But we're managing through, focusing on what we can control, and there is a lot that we can control. The recovery in services is a bright spot, with all businesses growing service revenue this quarter as well as strong underlying demand in Aviation and Healthcare.

I'm confident that our team is leveraging lean and decentralization, focused on safety, quality and delivery, and taking action to drive growth, price and cost out. And we continue preparing our plans to stand up 3 strong independent companies, focused on growing critical sectors: in Aviation, where we're on the cusp of a post-COVID recovery and new engine ramp with our airframe customers, accelerating our mission to create a smarter and more efficient future of flight; in Healthcare, where we're innovating in precision health to drive efficiency and improve patient outcomes; and in Energy, where we see tremendous opportunity to provide affordable, reliable and sustainable power.

Overall, I hope you see what I see, that our businesses are positioned for success as we continue to scale lean and drive innovation, delivering better results for our shareholders today and tomorrow.

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

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

Thanks, Larry. (Operator Instructions) We have a hard stop at 9:00. Brandon, can you please open the line?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And from Wolfe Research, we have Nigel Coe.

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

I want to turn back to the guide. Obviously, we're recognizing your comments about working to the low end of the range. But can we focus on Renewables and Power -- Renewables and Healthcare based on 1Q performance? Even the low end for those 2 segments looks like a long putt. So I'm wondering if we could maybe just in more detail talk about the line of sight you have to better results in those 2 segments, be it pricing, backlog quality or cost reduction, whatever you see out there to improve the performance and get it into those ranges for the full year? How does that second half ramp look?

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

Well, I think we start with Healthcare, Nigel. We're clearly seeing more inflation there. And the price/cost challenges we've discussed before I think continues to be top of mind. We're encouraged by what we've seen with respect to improved pricing in the order book here of late. That has yet to match up with what we're seeing in terms of price in our recognized revenue. But that will come. So I think as we look sequentially through the rest of the year, that will be less of a headwind for us as we make that progress. I think we're doing a lot of good work with not only our suppliers, but within our own facilities, to make sure that we're able to match output with demand, right?

This is not a demand issue. As you saw, orders in the quarter for Healthcare were up 8%. It really is a throughput dynamic. I don't want to lay all that off on our suppliers. There's a lot that we are doing with them and with our own facilities to improve the reliability of supply. And things are just backed up. We've talked about this before. I think we're making good progress with some of our larger suppliers, if you will, with our -- many of our A parts. But with the B and C part, that continues to be a challenge. But again, whether it be the redesigns, some of the resourcing, some of the better signaling with them, let alone our kaizen work in our own facilities, I think we'll see through the course of the year sequential improvement in that regard. So we can get that volume out with better pricing over time. Given this demand backdrop, I think you'll see Healthcare improve through the course of the year.

I think with respect to Renewables, what we really want to highlight here is that we're fundamentally taking, I think, a more measured and more conservative posture with respect to the outlook in Onshore Wind. There's, I think, considerable uncertainty with respect to the PTC and other incentives. That is creating a bit of a pause with customers. I think the timing of that resolution is unclear. Congress can, and I believe will, take action this year.

But at this point, with the passage of time, I think we know that the orders later in the year are likely to be delayed, if not push into '23. That will create some pressure for us particularly from an order, and in turn, a cash perspective. But that, coupled with the pricing actions, which I'm pleased by, right, because we do need to see improved price at Renewables, particularly in Wind. While it's a short-term pause with respect to demand, it's the right thing for the business, and I would argue, the industry. We're taking some of those tough decisions. But if you look at even ex U.S., we saw a high single-digit increase in our pricing moves internationally in Onshore Wind. That's part of the improvement plan, and again, I think something that you'll see play out through the course of the year. But in the absence of that volume in onshore North America, that creates a more muted outlook for us in Renewables in '22.

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

And maybe to sort of -- specific on the second half there. So basically, if you think about it, the beginning of the year, we talked about the orders, and as Larry mentioned, sort of what Healthcare would have been, so we are expecting that growth to come in the second half where we see the orders now. And we also have a seasonality before the first half and the second half of the year, as you know. So there's a big growth of volume and profit and cash, just the seasonality through the second half. And I don't talk to that sort of the strengthening of the organic growth that we're seeing through Healthcare. But actually, also within Renewables, we have a second half where we know that the orders in the second half on Onshore Wind U.S. and a couple of customers are also better, so that will also improve the second half numbers.

Operator

From Bank of America, we have Andrew Obin.

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

Yes. So a question regarding your range. You did say that you are holding the range initiated in late January, but currently trending to low. And so 2 questions really. A, what would it take? What kind of circumstances would it take to hit the upper end of the range? Because I do find it interesting that you -- it's still out there. And the second question, when you talk about the range, are you thinking differently about EPS versus free cash flow? Which one is lower risk?

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

Well, let me take the first part of that. Maybe Carolina will take the second part of that. Andrew, I think what we really wanted to make sure people understood here was that we've got a number of pressures, again, inflation. We talked about Renewables a moment ago, and incrementally, the Ukraine-Russia situation. I think depending on the pace of some of these sequential improvements we've just touched on, be it our pricing actions, be it our throughput actions, let alone some of this policy uncertainty being resolved, that could, I think, give us a bit of a lift here beyond the low end of the range.

Clearly, throughput is not strictly a Healthcare dynamic for us. We're really encouraged by the strong order books in Aviation, up 30% overall. As you saw, services up over 35%. But we really have a lot of work to do, again, with the supply base and in our own shops to keep pace with that. So we're working that hard every day. I see a lot of progress. But nevertheless, we are building our past due backlog in a number of areas, and we've got to clear that out. But given where we are today, you see how we're framing the year.

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

Yes. And if you just compare sort of the EPS range and the cash flow range, what we're commenting on is we're saying that our guide is at the low end. And that goes for sort of both KPIs. I would say from a risk opportunity perspective, there's less risk on the cash flow side than on the EPS side.

Operator

From Citigroup, we have Andy Kaplowitz.

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

Carolina, maybe can you give us more color into your assumptions for the cadence of the year, both on EPS and free cash flow? Maybe quantify how might additional supply chain and China pressure impact Q2 versus what are your assumptions for how these pressures might alleviate through the rest of the year? And there, how your own self-help and pricing initiatives might help your earnings progression?

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

Yes. Sure. So what we are seeing -- well, we've talked about the Q1 and the pressure that we see there. So what we are seeing and what we're expecting is that it continues through the second quarter. But then, that it starts to ease. And you sort of see the impact of that, I would say, through the businesses, with Aviation being able to sort of ship all the engines that they want towards the second half. We also see, I would say, especially on Healthcare, I mean, 9% organic growth if we've gotten everything out that our customers wanted. So we are expecting that to come towards the second half as well. And that will then obviously impact both profit and cash.

If you look at the Renewables side, it's probably more of a sort of slower trend there, highly impacted by the inflation. We do have, as I mentioned earlier, sort of good orders with reasonable margins in the second half. So we have a positive mix also first half to second half, which isn't necessarily inflation. But sort of as we continue to work through, that would also improve.

I would say in Power, probably least impacted there. We do have a dynamic that we know of that with our backlog, we have more deliveries in the second half. And that's also why we expect to have the, I'm going to call it, typical seasonality, as we saw it last year as well as Power with lower first half volumes versus second half volumes.

What I would say, we expect to go through all the businesses through the year and get sort of stronger momentum, it will be price. So the pricing actions that we're working through, especially in the longer-cycle businesses, you sort of start to see improved pricing in the order side. And Larry mentioned that earlier today, that even if you take Onshore Wind international, which is an important area for us to increase prices, we actually had high single-digit price increases in the first quarter in orders. So as the orders translate into sales and revenue, we'll start to see more impact from pricing as we go through the year. I would say pricing cost as a balance for the year, we expect it to be negative. But we do expect it to be offset by the other actions that we're doing in productivity and restructuring.

Operator

From JPMorgan, we have Steve Tusa.

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

Just a couple of follow-ups, I guess. First of all, can you just tell us what you currently expect working capital to be this year? If there is any change there. I think you gave precise guidance at the March event. And then I think you just talked about second quarter being -- can you just maybe be more precise about a range -- some sort of a range to frame the second quarter? It seems like there was some confusion coming out of the fourth quarter of '21. And it kind of resulted in a couple of rounds of cuts in the first quarter. Maybe if you could be a little bit more precise relative to the $0.24 and relative to the negative $800 million in free cash, what you would expect for the second quarter.

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

Steve, thanks for asking 2 questions there. If I start with the working capital, we expect, even at the low end of the guide to be -- to have a positive impact from working capital. As you know, in 2021, we had a good $2 billion of positive flow of working capital, and we expect that to be an even higher positive flow in 2022. I would say, if you look at it part by part, we still expect high single-digit growth. We expect receivables to be under pressure, where we would expect inventory to improve and basically the other pieces of working capital also to be a positive flow for the year. So we would expect that to continue to improve in 2022 as well.

And thank you for coming back on the 2Q question. I think I missed that one from you, Andy. Sorry about that. So if we talk about the second quarter where we are, Larry spoke about what's pressuring the first quarter. So clearly, we continued to see that into the second quarter as well. We have the inflation, we have Russia-Ukraine, and we have the Renewables situation and we have the back-end loaded second half as we usually would have. I would say though that there's a lot of good things going on as well, especially the Aviation return to flight as we expect that to continue to ramp through the year as well as I talked about the Power part as well. If we look for the second quarter specifically, working capital will have the typical seasonality, and that means that 2Q is pressured by working capital. So overall, for the second quarter, we are expecting low single-digit growth, some OMX expansion sequentially and a free cash flow that's better sequentially but still negative.

Operator

From RBC, we have Deane Dray.

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

Can you provide some more color on what the macro assumptions are that are embedded in the guidance for the year? And just to clarify, and I know this is fast changing, but you said it was a 6-percentage point revenue headwind between Russia, supply chain and the China shutdowns. Are you able to parse out those 3 factors? That would be helpful.

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

Deane, I would say that with respect to the macro, again, I think inflation pressures have become more acute in certain areas. And we're working hard to offset that in a number of ways, both from a procurement, from a utilization perspective, let alone on the price side. We can get into that in more detail if you'd like.

Again, I think in Renewables, we're assuming a resolution, but probably a late resolution in that regard with respect to some of the incentives here and the clearing of this pause customers are taking in the wake of price increases that we and others are trying to put across. Clearly, there's an inflationary between a metals and a logistics-based inflationary pressure that has picked up in Renewables as well. And then there's just the Russia-Ukraine dynamic. I think we're really keeping a weather eye out on some of these supply strain constraints, working very hard to offset those, both with our suppliers and in our own shops, right?

There's a lot that we can do to, frankly, be a better customer with our suppliers in terms of how we signal what we need and when we need it, if you will, a good bit of pull being implemented now, particularly at Aviation. We're doing kaizens with our suppliers to help them break bottlenecks where we can. So there's progress, probably more with the A parts than the C parts. But we're working hard and keeping an eye out on this while continuing to drive the flow in our own facilities to drive more output where we can.

Also watching closely what happens here in China. We know we were hit both from a demand and from an output perspective in the first quarter with the lockdowns, particularly in and around Shanghai. How that plays out? It's not something that we have a handle on. I don't think anybody really does. So those are the 2 things we're watching. But it's really inflation, the dynamics in Renewables in Russia, which are the primary pressures on the range.

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

Yes. And when we talked about 6%, so that's the impact on the top line. And 5% of that is from supply chain, and we said 1%, we attribute to sort of the China and the Russia situation.

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 wanted to focus just a little bit on Healthcare because it's a pretty important part of the story here. Obviously, the lost sales that you get when you have the problems in supply chain, is there a way to think about -- is any of that lost forever? Or is it just pushed to the right? And are there late delivery penalties or anything in the contracts that would imply that you really can't make money when you do ship those units out?

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

Scott, fortunately, we make very good margins across the Healthcare portfolio, right? It's probably our highest gross margin business of the 4. So when you look at a quarter like the one we just had, where orders were up 8%, shipments were up 2%, we're building backlog. And that's a good thing. Normal course. Unfortunately, what's also happening, because we haven't necessarily cleared all the orders we got in the back half of last year, we're also building our past due or our delinquent backlog. That doesn't -- that tends not to carry some of the penalties that you'll see in longer-cycle businesses.

So we simply have to get that product out, recognize that revenue when we do. And I think you'll see strong impact, both in the P&L and in the cash flow statements. Again, a lot to do, a lot of work to do with our suppliers, a lot of work we can do within our own shops, which we're doing. It's just hard for anybody on the outside to see some of that progress. But fortunately, again, it's not a demand issue. It's really a throughput issue. And that's where we're focused.

On the inflationary side of things, it -- there is pressure there. And again, that's why Pete and the team have been pushing price where they can. I think we've seen really nice improvement in the order book in that regard. To get that into revenue, of course, we've got to clear this backlog. And in some cases, that is happening now. We're going to need a few more months, I think, in other cases. But that work, again, is underway. And I'm optimistic, when you put all that together, it's a good part of the sequential improvement we should see in Healthcare through the course of '22.

Operator

From Morgan Stanley, we have Josh Pokrzywinski.

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

So just on -- we covered a lot of ground elsewhere, and maybe just to spend a minute on Aviation, if we could. Just seems like there's a pretty wide difference between Commercial Services and shop visits, services being up kind of double the shop visit rate. I mean how sustainable is that number? Is that just some of this higher calorie stuff coming in on wide-body? Like how do we -- how should we interpret that performance variance? And how do you expect that to trend from here?

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

Josh, you're right. I mean we've got a lot of momentum right now in services. Revenues were up 26% in the quarter in Aviation. It's not simply a function of shop visits. And there's a lot we're doing even there to make sure that our own capacity and our supply lines are set to keep pace with this ramp. Again, a high-class challenge to have. Demand is robust. But in addition, we're feeding parts and other elements of the service mix to third parties, which particularly now as people deal with an inventory depletion. As everybody is working down inventories during COVID to get ready for this post-COVID ramp, we're seeing some of that spike in certain areas as well right now. So there's a lot of good going on. And again, I think we're -- our primary challenge is going to be to keep pace with the rest of the year.

Operator

From Goldman Sachs, we have Joe Ritchie.

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

So one question on -- just a clarifying question and then another quick one on the bridge to 2023. So for this year in 2022, is the 25 to 75 basis points in margin expansion in Healthcare still on the table if we're at the low end of the guide? And then as you think about 2023, clearly, the net income bridge from 2022 to 2023 is widening. I'm just wondering whether any confidence has waned at all just given what's happening externally to get to, call it, roughly $7 billion of net income by 2023?

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

So Josh, maybe I'll -- sorry, Joe, I'll start with the first part. So if we look at the Healthcare and the guide that we have, we said 25 to 75 bps. I would say that it will depend on how much the supply chain eases in the second half because of the pent-up demand that we have. There's great orders in there. And getting those out at a good pace in the second half, then we would be able to get to the part of that range. I would say though that on top of that, it's what Larry talked about before. We also have the work done on pricing, we have the work done on productivity and as well as sort of pushing the right mix even in Healthcare. So it's still a possibility, but it's, of course, tougher now with low part of the range. And for '22 to '23, Larry?

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

Sure. Joe, I think a lot of what we've talked about here in terms of the sequential improvements in those areas that are within our control really are the most important planks in the bridge to '23. But I obviously start with cash, as you know. And when I think about, if you will, the low end of that $5.5 billion, $6.5 billion guide for cash this year, if we just take the $5.5 billion, it doesn't really take us much to get to that $7 billion figure we've talked about for next year. Again, I think Aviation is moving forward in this regard. And the AD&A headwinds we've talked about for this year, probably $0.5 billion shouldn't repeat next year.

We talked a moment ago with Scott relative to Healthcare and the sequential ramp from here. We think demand will continue to be robust. Again, in this post-COVID world, we see investment both on the private and the public side. So as we clear that backlog, probably carry a little bit of that back into next year, we're going to move. And I think with respect to Power, you continue to see steady improvement. And all we really need out of Renewables is a little bit of the same, right, not a dramatic turnaround going into next year. So a lot of work to do still this year, but we think we're on a path for '23, along the lines of what we've discussed previously.

Operator

From Barclays, we have Julian Mitchell.

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

Maybe just a quick question on the points around offsets to some of the headwinds. You had that EBIT bridge on slide, I think, 112 of the Investor Day deck. You have the price/cost inflation bucket and the productivity bucket. Can you just sort of give us dollar numbers on what you're expecting for those 2 in 2022 now? That price/cost aspect, in particular, how big could that headwind be? And what was it in Q1?

And then on the productivity side, I didn't really hear you talk about accelerated restructuring today. So I just wondered kind of what's going on, on the productivity side to make sure that you can limit the negative impact of these gross headwinds into '22 and not have them bleed too much into next year.

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

Well, Julian, let me maybe take the back part of that while Carolina grabs Page 112 from the deck in Greenville by way of reference. I think when we talk about throughput, we're talking -- I mean, implied in that is a productivity element. Now admittedly, we want to make sure in the spirit of SQDC, right, safety, quality first, delivery before cost, that we're getting product out. But a lot of the lean work, again, I think you saw this in Greenville, allows us to create capacity to bust bottlenecks and do so in a way that isn't throwing a lot of arms and legs at it, that would dilute productivity. So part of the challenge in Aviation and in Healthcare is to make sure that we're true to that. But I think the lean approach, make sure -- well, it's a focus on productivity, first and foremost.

I think you did hear in the prepared remarks us talk about the fact that we need to adjust the cost structure in Renewables to the new realities that we're dealing with and some of these uncertainties. So Scott's in that business, I think, 100 days, give or take right now. But he and the team are taking a hard look at where those opportunities are to deal with some of the cost buckets that are clearly in need of review. So that work continues. Very much spooled up on that. But again, in the spirit of priorities, we want to make sure we're clearing the supply constraints as best we can and working the purchase cost and the price side of things probably with more energy.

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

And actually, Julian, I vividly remember that slide so I didn't even have to look it up, because it's really about how we get from our profit, from sort of 4.6 to where we go in 2022. But just start with the first quarter because you asked about that as well. So in the first quarter, we did see positive price, but it did not offset the cost on inflation, even net of the cost actions. But we do expect that to improve through the year as the pricing impact continues to get larger, but also as our work. And we talked about it in 3 different categories. We talked about sourcing actions, we talked about productivity, and we talked about restructuring.

So if you take for the full year, I would say, what we see now, price/cost we thought would be basically flat. But what we're seeing now, inflation is strengthening, and therefore, we expect that to be a negative net. But we do expect to be able to offset that with the productivity plans that we have as well as the current restructuring that we've talked about.

Another big important part to grow the profit is going to be on the volume side, which we also talked about then. And we are saying high single digit, but the low part of that, that still means reasonable growth. So that's going to be a good important part of how to get to the profit number for the full year. You asked if we're not doing anything more or what are we doing on productivity and restructuring. What we tried to talk to earlier today was that each of the businesses are going through their plans, both on productivity and how to sort of right-size their organization. So I would say, as we're speaking, all teams are working to increase those numbers and increase the actions since they're also seeing the effect of inflation.

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

Larry, any final comments?

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

Steve, thanks.

I would just wrap up here by highlighting the fact that our teams continue to deliver for our customers in what was clearly a difficult operating environment. And we're laser-focused on positioning all of our franchises, all of our strong franchises for the long term. And I'd just like to wrap by thanking our employees and our partners for their hard work and our investors for their continued support. We appreciate your interest, your investment in GE and your time today. Of course, Steve and the IR team stand ready to assist you as you consider GE in your investment processes.

Operator

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