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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the General Electric Second Quarter 2022 Earnings Conference Call. (Operator Instructions) My name is Cheryl, and I will be your operator for today's call. (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, Cheryl. Welcome to GE's Second Quarter '22 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 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***

Thanks, Steve. Good morning, everyone.

GE delivered a strong second quarter with growth in orders, revenue and profit as well as positive free cash flow. Aerospace was the key driver and services remain a bright spot of performance. While this remains the toughest operating environment I've seen, I am proud of how the GE team is taking action to deliver.

I'll start this morning with an update on our plans to launch our strong franchises as 3 independent investment-grade industry leaders. It's now been 259 days since we shared this intent. We're on track and making good progress. Just last week, we unveiled the new branding of our 3 companies: GE Aerospace, GE HealthCare and GE Vernova, which will comprise our portfolio of energy businesses, including Renewable Energy, Power and Digital. The names leverage GE's multibillion-dollar global brand and deep customer trust, giving us competitive advantage in our end markets.

We also achieved several key milestones on the HealthCare spin, which will go first in early '23. We plan to file our confidential Form 10 shortly. Our team submitted its request for a private letter ruling to the IRS, an important step to achieve tax-free spin-off. We completed consultation with our European Works Council, allowing us to move forward with a number of critical employee actions globally, including adding key talent in support of the new company. We announced that GE HealthCare will trade on the NASDAQ, and I'm excited about the Board we're assembling for GE HealthCare and look forward to sharing more with you soon once finalized.

We're focused on building out our leadership team broadly to support the success of each of the standalone businesses. I'm thrilled to now be leading a very talented team at Aerospace including John Slattery, who has been named Chief Commercial Officer; Russell Stokes, now leading Commercial Engines and Services, Amy Gowder, leading Military Systems; and Rahul Ghai, who will join us next month as the business' CFO. And just last week, we announced Eric Gray as the new CEO of GE Gas Power, part of GE Vernova.

I'm thankful for how the dedicated GE team has strengthened our financial and operating performance while advancing the spin-off plans. And I'm confident in our path to create 3 companies that will be well positioned for long-term growth.

So now let's turn to our results on Slide 3. I'm encouraged by the order revenue and profit growth and positive free cash we delivered this quarter despite continuing macro pressures. Orders were up 4%, supported by growth in both services and equipment. Aerospace led the way, up 26%.

Revenue was up 5%, growing in 3 of our 4 segments. Aerospace was up double digits as the market recovery continued. HealthCare and Power were both up mid-single digits, and this was partially offset by Renewables, down double digits, reflecting lower U.S. volumes resulting from the PTC expiration as well as the business' international selectivity strategy. Our higher-margin services remained a bright spot, up double digits, led again by Aerospace.

Collectively, supply chain and macro pressures adversely affected revenue by about 5 percentage points this quarter but eased slightly versus the previous quarter.

Adjusted operating margin expanded 380 basis points, driven largely by higher services growth and our focus on pricing, with Aerospace and Power, sources of strength. HealthCare is stabilizing but still faces supply chain challenges and Renewables remains difficult.

Adjusted EPS was up significantly, driven largely by Aerospace. Free cash flow was roughly $200 million and improved slightly year-over-year due to better adjusted earnings. This was offset by higher working capital tied to inventory build as we prepare for the second half ramp as well as work through the supply chain issues.

Overall, this was a strong quarter for GE with orders, revenue, profit and cash all growing.

Notwithstanding much is still uncertain about the external environment companies like GE are facing at the moment. We continue to trend toward the low end of our 2022 outlook on all metrics except cash. Working capital will be pressured as we protect customers from the impact of supply chain challenges as well as the timing of Renewable Energy-related orders, which together are likely to push out approximately $1 billion of free cash flow into the future. So fundamentally, a timing dynamic at work.

We're just starting our annual strategy and budgeting cycle for 2023. We still expect to deliver significant year-over-year improvement in both profit and cash, but below our prior view. With the world evolving so quickly, we have to see how the next 6 months unfold and expect to provide you our 2023 outlook in the usual time frame at fourth quarter earnings.

Turning to Slide 4, starting with Aerospace and HealthCare. While demand remains robust, delivery has been a challenge for us, for the industry broadly and for our suppliers. What differentiates us is our Lean foundation, which we've built over the last several years.

In Aerospace, the industry is experiencing an unprecedented ramp as the pandemic eases coupled with labor and material shortages. The team and I spent time with our airframer and airline customers at the Farnborough Air Show just last week, talking about the need for predictability and stability across the entire ecosystem. We need to do better to deliver for our customers, and quality and delivery are our top priorities.

Let me take a couple of minutes on the actions that we're taking. Starting with OE. On the left chart, you can see material issues trending, either from our suppliers or of our own making that are impacting production flow and ultimately, delivery. We recently allocated an additional 20% of our existing engineering team to help solve these issues faster. We're seeing impact moving parts along, but we need to do more and quickly, and we will. We're partnering with our suppliers holding kaizens at points of impact in their shops to help them reduce setup time, eliminate constraints, optimize transportation and improve overall flow to us. This is leading to increased supplier throughput, as much as 30% or more in some cases. Overall, we're seeing signs of improvement with engine output up sequentially.

In services, we use work stops to measure how often we need to interrupt a shop visit due to a lack of resources, primarily from delayed repairs, castings, forgings or labor constraints. The curve was beginning to bend in May and June, reflecting our efforts to ramp labor and improve overhaul cycle time.

Last month, we held kaizen events at multiple GE sites around the world. John, Russell, Amy and I were all in Wales at our GE Aerospace MRO facility, where we overhaul both the CFM56 and GE90 engines. As we work to improve turnaround time for a steep CFM56 ramp, the kaizen focused on increasing overhaul capabilities from 3 to 4 engines per week.

What I saw across our 7 kaizen teams in Wales was Lean in action, a clear focus on waste elimination and continuous improvement. For example, operators on my team shared with me how they spent 45 minutes searching for parts for what is often a 60-minute operation. By removing this waste, we improved turnaround time at Wales by 3 to 5 days, about a 5% reduction. These examples are everywhere at GE. Each one further increases the efficiency of our operations and improves our pace of delivery to customers.

In HealthCare, we continue to broaden and strengthen our supplier base and address inflation through price and cost actions. One way we monitor supply dynamics is through red flags, which identify the lines at risk of a shortage if not replenished within 10 days. The chart indicates our efforts are starting to yield improvements. But again, we need to do more.

For example, responding to the COVID-19-related factory shutdown in Shanghai, our PDx team took fast action and we were able to operate at full capacity within 10 weeks. In the interim, our Cork, Ireland PDx team used a kaizen to increase capacity in the first step of producing contrast media solutions, which help doctors better image patients. They reduced cycle time by over 20% lifting capacity by about 5 million doses annually, critical in a shortage.

Examples like these support our confidence for higher output in the second half and in 2023. The actions we're taking not only help clear today's backlogs but build what our customers want, more predictable, shorter cycle times going forward.

Looking at GE Vernova. In Renewables, it's been a disappointing first half, and we're working intensely focused on stabilizing the business. We're working the fundamentals with Scott and his team leveraging the Power playbook that has delivered improved profitability and increased cash over the last 3 years.

First, given the U.S. political environment, we're taking a more conservative view of the market for the time being. You've heard us talk about sizing Gas Power for a [25] (corrected by company after the call) to 30 gigawatt market. In Renewables, we're taking a similar strategy, assuming GE Onshore Wind output of about 2,000 turbines per year. One key difference in Onshore, we aren't sizing ourselves to the market. We're sizing ourselves based on our refocused efforts on select geographies where we believe we can grow and grow profitably.

Lean and decentralization are core to the strategy. In Power, our first step was to decentralize, removing headquarters and other layers and driving full accountability closer to the customer. Using Lean, the team has implemented our live outage program that many of you saw firsthand in Greenville last March.

At Renewables, we're embedding similar principles, starting with reorganizing Grid into 3 P&Ls and integrating horizontal functions such as commercial and services vertically into the businesses.

Next, scope selectivity, stronger commercial underwriting and a focus on pricing has enabled Power to reduce risk and offset rising costs. We're turning to price escalation in our long-term service agreements where appropriate, and we're updating our project cost estimates more frequently to reflect our current reality.

In Renewables, while it won't be enough to offset the significant inflation pressure, we are making progress. Our pricing has substantially improved in Onshore while continuing our focus on deal selectivity. Additionally, we're growing our higher-margin businesses, such as Grid Automation, which delivered double-digit orders growth.

In Power, we continue to invest in Gas and Steam services productivity while focusing on product cost competitiveness. At Renewables, we've introduced several new products, which we are working down the cost curve. These are larger, more innovative technologies that need to be industrialized for large-scale production. We're also proactively deploying improvements to our fleet that will enable long-term reliable performance from these high-tech products.

Fixed costs, frankly, a misnomer in my view because nothing is really fixed, is another critical element here. Over 3 years, we cut these costs in gas by approximately $1 billion. Based on international selectivity and a smaller North American market, we're taking a harder look at our Renewables cost structure, which we expect will yield significant savings.

We know from our Power experience that these actions at Renewables won't yield results immediately. But with this playbook, we expect the business to return to profitable growth over time. Combined with Power's progress and enhanced profitability and cash, we're excited about the future for GE Vernova.

Moving to Slide 6. While driving operational improvements across our businesses, we're also focused on better serving our customers and innovating for the future. A few recent highlights. At Aerospace, our joint venture with Safran. CFM International was selected by Delta to deliver 200 CFM LEAP-1B engines to power its new fleet of Boeing 737-10 aircraft, with options for up to 60 additional engines. Qatar Airways also signed an agreement for installed and spare LEAP-1B engines to power the airline's new fleet of 25 737-10 aircraft.

At HealthCare, our recently announced partnership with Medtronic is enabling personalized care with the integration of 2 of Medtronic's continuous monitoring solutions with our precision monitoring platform. These capabilities allow clinicians to have access to real-time, reliable patient insights.

And at Power, we celebrated the first HA gas turbine order in Vietnam. The new 9HA.02 combined cycle power plant is expected to improve the reliability and stability of the energy grid to support renewables penetration there.

We're also developing new products with innovation supported by our continued investment in R&D. For example, Digital announced the first solution resulting from its Opus One Solutions acquisition, Distributed Energy Resource Management System designed to help utilities keep the grid safe, secure and resilient while enabling energy affordability.

So in summary, I have great confidence in the actions we're taking and our path forward to drive sustained profitable growth.

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

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

Thanks, Larry.

Diving into the results. Turning to Slide 7, I'll share the highlights from the quarter on an organic basis. Orders were up 4% and revenue up 5%, with growth led by Aerospace. On a sequential basis, adjusted revenue improved $1.6 billion or 10%, a significant step-up reflecting progress towards our second half ramp. Services revenue was a particular strength in the quarter as we delivered double-digit service revenue growth compared to last year, with Aerospace leading the way, up 47%.

Equipment declined 6%, driven by Renewables. HealthCare and Power equipment revenues were bright spots, with HealthCare up 5% despite supply constraints and Power up 18%, reflecting strong Aeroderivative shipments. Year-to-date, organic growth was 3%. Both quarter and year-to-date, this includes 5 points of pressure from supply chain disruptions, COVID impact in China and the Russia-Ukraine war with the latter contributing roughly 1 point of impact year-to-date.

On adjusted margin, both Aerospace and Power saw expansion overall as a result of the actions we're taking, focused on pricing drove more than 100 basis points of margin expansion in the quarter. Services mix, particularly in Aerospace, contributed favorably. We also saw improved contract margin reviews for CMRs with strength from contractual escalations and engine utilization. Cost reductions were more than 150 basis points of year-over-year benefit, largely restructuring savings and some timing-related corporate benefit. Partly offsetting these improvements was approximately 200 basis points of margin headwinds from inflation and logistics costs, net of sourcing actions.

In Aerospace and Power, the net impact of price cost and inflation was positive. HealthCare and Onshore Wind both took steps to address cost and price, but it wasn't enough to offset the inflation.

Lastly, adjusted EPS was up about $0.56 or about 2.5x driven by profit growth plus lower interest expense from our debt reduction actions. About $0.15 of earnings was timing related that we either do not expect to repeat or had originally expected in the third quarter. Continuing EPS was negative, primarily driven by the unfavorable mark-to-market impact from our Baker Hughes and AerCap positions.

In total, we delivered a strong quarter marked by revenue up mid-single digits significant profit growth and margin expansion. These results and our focus on execution gives me confidence that we will achieve the low end of full year growth, profit and EPS outlook even in a tough environment. Year-to-date, we have delivered more than 1/3 of our EPS guide, in line with typical seasonality.

Moving to cash. We generated $200 million of free cash flow driven by strong adjusted earnings, which was positive, excluding the mark-to-market impact previously mentioned. Despite a limited impact on free cash flow in the quarter, supply chain challenges are contributing to inventory pressure and later deliveries and billings.

First, on working capital dynamics. Receivables for the use of cash driven by billings from sequential revenue growth and also pressured by later deliveries in the quarter. This was partially offset by collection strength, where we saw a 7-day DSO improvement year-over-year. Inventory up across all businesses was a large use of cash. A portion of this is typical, building for the second half volume growth leads to inventory and accounts payable growth with material resets outpacing disbursement.

This quarter, however, supply chain challenges also contributed to elevated inventory levels across inputs and outputs. Inputs were pressured by the impact on inflation and additional purchases needed to support second half deliveries for customers. For output, fulfillment challenges led to higher inventory.

Progress was a source of cash, mainly due to Aerospace collections on equipment orders to support production. Contract assets was a use of cash. We saw continued strength in Aerospace utilization, resulting in higher billings, offset by service revenue in Aerospace and positive CMRs.

In the second half, we expect free cash flow to be significantly greater than the first half due to higher collections on revenue growth and disbursements in line with the first half inventory build. However, supply chain constraints are delaying deliveries and pushing collections to the following periods. So as a result, much of the third quarter free cash flow is likely to shift to the fourth quarter, while late fourth quarter deliveries would leave a higher receivable balance at the end of the year to be collected in 2023. Combined with lower progress payments from Renewable Energy orders, we expect this to result in a deferral of about $1 billion of free cash flow out of 2022.

Turning to the business. Aerospace delivered a very strong quarter as the commercial market continued to recover. Orders grew across the board, up 26% with both commercial engines and services up substantially, reflecting continued robust customer demand. Revenue was up, driven by significant growth in commercial services with shop visits 14% higher year-over-year and continued strength in spare parts sales. Supply constraints, including material availability, negatively impacted revenue by 9 points, primarily in Commercial Engines. Military growth was driven by services while engine deliveries slowed due to temporary setbacks, specifically in T700 shipments, we expect tangible improvements in the second half.

Commercial Engine revenue was down slightly as supply chain disruptions continued to impact deliveries. Total engine shipments were down 7%, largely due to lower GEnx production, where LEAP shipments were up 7%.

Segment margin expanded by almost 15 points primarily driven by Commercial Cervices growth, lower OE shipments as well as actions improving pricing structures to address inflation and CMR performance. CMR alone drove over 8 points of improvement given the negative CMR last year.

For the total year, largely due to China's first half slowdown, we now expect shop visits to be in the high teens range. We also expect lower commercial engines revenue, trending below 20% growth year-over-year due to continued supply chain challenges. However, we continue to expect more than 25% Commercial Services growth from ongoing strength in spare parts sales, and that more than offsets the lower shop visit volume and OE volume. Therefore, we still expect to achieve greater than 20% growth and $3.8 billion to $4.3 billion of operating profit for the year.

Moving to HealthCare. Market demand remains solid, while supply and inflation challenges continue to impact the market. Underlying customer orders indicate continued commitment to investment and we're encouraged by signs that supply chain pressures will ease in the second half of this year. We continue to monitor hospital investment plans and procedure activity. Second quarter orders grew 1%, but that was against a tough comparison to the second quarter of last year when orders increased 11% as well as the impact from COVID in China. Orders increased mid-single digits in Services, partially offset by a slight decline in Equipment orders. Comparisons continue to be challenging through the second half.

Revenue in the second quarter was up 4%, with mid-single-digit growth in equipment and low single-digit growth in services. Growth was driven by Imaging, Ultrasound and HCS Services sales, and it was offset by the continuing supply chain constraints, including those related to COVID impact in China. Recall that fulfillment challenges started in the second quarter of 2021. And when excluding supply chain impact in both periods, revenue growth would have been 5% this quarter, highlighting how we proactively manage sourcing and logistics.

COVID in China impacted growth in both Equipment and PDx revenue. With China broadly reopening in early June and our Shanghai PDX facility fully operational, our Equipment and PDx revenue in China is expected to rebound in the third quarter.

Segment margin was impacted by material and logistics inflation with some sequential improvement. Net of sourcing actions, margins contracted about 300 basis points year-over-year but were up about 200 basis points sequentially. We are making progress with price in sales positive for the first time in recent history.

Looking ahead, HealthCare is focused on driving cost reductions and implementing Lean through supply chain actions to deliver for customers and address cost and price structures as we work to offset inflation and logistics pressures. We are also prudently investing in future innovation, aiming at high-return differentiated technologies. Our commitment to R&D investments is demonstrated by the double-digit year-over-year increase this quarter. For example, we launched Voluson Expert 22, our most advanced ultrasound yet. This latest addition to our Women's Health portfolio has AI-powered tools and our proprietary Lyric Architecture to unlock new imaging and processing power, achieving higher resolution detailed images and scanning flexibility revealing fine anatomy in 2D, 3D and 4D with ease.

In addition, our inventory levels are elevated as we prepare for an anticipated ramp in orders fulfillment in the second half of 2022.

As Larry mentioned, we're making good progress on the HealthCare spin. We have an opportunity to impact both patients and customers as HealthCare transitions into an independent public company.

Looking at the full year, order demand remains solid, and we're expecting mid-single-digit revenue growth while closely monitoring customer order activity. Due largely to inflation pressure, we now expect 2022 operating profit to be about $3 billion, slightly below our prior outlook.

Turning to Renewables. Orders were down due to continued pressure from Onshore North America market dynamics and the selectivity in International, impacting both equipment and services Repower upgrades. Partially offsetting this were Grid and Hydro, which won a large order for the upgrade of the Itaipu hydropower plant. Grid had orders growth across all businesses, including significant growth in Grid Automation.

Revenue declined with roughly 2/3 of the decline from lower Onshore Wind North America deliveries. The remainder of the decline was primarily driven by Onshore Wind International as planned. Grid and Onshore services, excluding Repower, both were up low single digits, reflecting our focus on driving growth in these businesses.

Segment margin declined significantly although up 160 basis points sequentially. Roughly half the year-on-year decline was a result of volume reductions in our most profitable market, U.S. Onshore. The remainder of the decline was split roughly equally between net inflation pressures across our businesses and higher-than-expected new product costs in Onshore International as we take measures to improve durability across our fleet. This was partially offset by Grid where margins improved from higher volume and benefits from prior restructuring actions, and we also recovered costs associated with legacy hydro projects of about $70 million.

In summary, we knew coming into this year that Renewables would be challenging. Offshore Wind is a long-term investment in an industry still not at full maturation. Grid, a critical part of the energy transition, is where we're making good progress today. Our priority is Onshore Wind where many pressures are converging. The ongoing paralysis in Washington with the PTC expiration is hitting our most profitable market, impacting demand. This is coupled with additional inflationary pressures and fleet durability actions.

For 2022, due to these dynamics, we no longer expect a step-up profit in the second half. Clearly, we have more work to do here. We're taking swift actions to turn around this business, running our Power playbook. Given the strength of our portfolio and the fundamental importance of renewable energy in the energy transition, we remain confident that we will drive profitability over time.

Moving to Power. Starting with the market. Global gas generation and GE utilization remained resilient, growing low single digits. Despite higher gas prices and availability challenges, gas remains a fuel of choice on the dispatch curves around the globe to meet the growing electricity demand. We continue to expect the market for gas generation to grow low single digits over the next decade.

Orders were down in the quarter, largely reflecting the uneven equipment order profile we've seen quarter-to-quarter. Services declined due to lower gas CSA outages in line with our multiyear technology cycle. Importantly, Power orders grew low single digits in the first half of the year, driven by equipment strength in the first quarter. The team remains focused on disciplined underwriting and backlog quality.

Revenue was up mid-single digits, primarily driven by margin-accretive aeroderivative strength, shipping 14 more units versus last year. Overall, services revenue was flat. We delivered strong transactional services growth in Gas and Power Conversion, which was offset with the expected lower gas CSA outage volume. Segment margin reached high single digits in the quarter and expanded 30 basis points.

At Gas Power, margins remain resilient from improving price structure to address inflation and aero equipment and transactional services volume growth. This helped offset the mix headwind. At Steam, margins improved significantly due to continued focus on productivity as well as project and legal charges from last year that didn't repeat.

We're focused on expanding our services opportunity and expect higher CSA outages next year. In the second half, we expect more growth as H-class and aero delivery ramp alongside the continued strength of transactional services and the improvement at Steam.

Power is set up well to grow profit in 2022, and we are reaffirming our outlook for low single-digit revenue growth and margin expansion.

Finally, a moment on corporate. Adjusted corporate costs decreased over 50% versus last year and 65% year-to-date. We saw lower functions and operations costs from some timing benefit in addition to lower elimination. Given the favorability in the first half, we now expect corporate costs of below $1 billion for the year.

While excluded from our adjusted results, insurance net income was approximately $140 million. This was down year-over-year as COVID favorability subsides and trends continue to normalize.

As we have previously disclosed early this year, aligned with the industry, we plan to adopt the GAAP LDTI accounting standard. The transition adjustment is being applied retroactively to the beginning of 2021. As a result, we expect a negative equity impact of about $7 billion to $8 billion after tax using January '21 rates. This is driven primarily by the lower discount rates.

Using June 30, 2022 rates, the transition adjustment would be $4 billion to $5 billion, taking effect in the first quarter of 2023. Also embedded in this estimate is the $1.5 billion to $2 billion after-tax equity impact primarily from adopting the LTC first principles approach, which complements the LDTI and incorporates a more granular modeling assumptions. The first principles model are considered an industry best practice and allow for additional transparency driven by refined modeling that improves claims projections.

Importantly, we do not expect any additional cash funding needs as a result of these changes currently.

We will finalize our CFT results in the first quarter of 2023. We also currently expect our LRT margin to remain positive and will report results in the third quarter of this year. We've provided more info on this in the 10-Q that we filed today.

In discontinued operations, our runoff Polish BPH mortgage portfolio ended the quarter with a gross balance of about $2.1 billion. And this quarter, we recorded charges of about $200 million, primarily driven by unfavorable results for banks in ongoing litigation with borrowers. This brings the total litigation reserves related to this matter to approximately $1 billion.

Stepping back, despite the volatile environment, we are pleased by the progress we made this quarter. We delivered order, revenue and profit growth and positive cash. This gives me confidence in achieving the outlook for 2022 that we've shared today.

Now Larry, back to you.

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

Thanks, Carolina. And by the way, happy birthday.

Wrapping up on Slide 13. As we sit here today, I hope you see what we see. GE is a stronger, more customer-centric company. With Lean and decentralization at the center of everything we do, we've made significant progress across delivery, price and cost, driving lasting improvements. The actions I outlined earlier are helping us manage pressures today and most importantly, positioning our businesses for sustainable long-term growth.

Looking ahead, our story is simple. We have leading innovative franchises poised to accelerate in critical growth sectors the world needs. We're advancing the future of flight, precision health and the energy transition. And our solid financial and operational foundation keeps us on track with our plan to launch 3 companies, each with greater agility, more focus and future growth opportunities. I'm excited about what's ahead and confident GE is positioned to create value.

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

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

(Operator Instructions) Cheryl, can you please open the line?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Deane Dray from RBC.

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

A couple of free cash flow clarification questions. First, how much of the $1 billion pushout is supply chain versus the Renewable orders? What's the reset 2022 guide? And what does this mean for that previous placeholder for '23, the $7 billion plus? And happy birthday, Carolina.

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

Well, thank you, Deane. There was a lot of questions on cash. We'll take them step by step.

So to start with the $1 billion of working capital pushout that we mentioned earlier today, it's really 2/3 that is timing, I would say, a combination of inventory versus receivable from the businesses. And then about 1/3 is progress in the PTC dynamics from Renewables. So that's the split of the $1 billion.

Then you asked about the guide for 2022 free cash flow, and what does that mean then per business. So what I would say is that if we start with what we talked about today, $1 billion, about $1 billion of pushout compared to what we've talked about before. So if you take them segment by segment, it really means that in Aerospace, we expect to be down due to the supply constraints. HealthCare, similar. So basically, I would say, trending flat due to the supply constraints here on deliveries. For Renewables, and here, we already in the first quarter talked about that we expected to sort of be below our original guide, but still better than last year. Now we have additional pressure. So about 1/3 is added to the Renewables number or reduced from Renewables number. And then for Power, we have conviction in the existing outlook. And Corporate, we also expect to land in the existing guidance.

So that's overall the 2022 impact of the changes in the free cash flow guide.

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

And Deane, on '23, if I may, as you know well, we're just starting our annual strategy and budgeting cycle, that will take us through the next several months. I think as it pertains to '23, we're still of the view that we're going to deliver significant year-over-year improvement in both profit and cash but as we said earlier, below the prior view that we've expressed.

And perhaps stating the obvious, with so much in flux right now, around the world, I think it's going to be important for us to see how the next 6 months unfold and at this point, expect to provide an outlook on '23 in the usual time frame at earnings -- at fourth quarter earnings.

That said, I mean, given the way we've talked about '23 in the past and the underlying improvement drivers, I don't think they've really changed since March relative to the strong tailwind that we see in Aerospace broadly, both in services and in new units. Clearly, post-pandemic spending by health care providers is something that is critical to the HealthCare story. And I think the energy transition all the more, given events in Ukraine, are going to play to GE's strengths. We just need to work through some of these near-term issues that we've highlighted in the prepared remarks in Renewables.

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

Yes. So what that means basically is that we still expect to see the same drivers as we shared in March, but we're monitoring the volatility as Larry spoke about. And we do expect earnings to be a bigger contributor in the sort of the 2023 improvement. It will start off a lower 2022 base, but it will still be the main part of improvement for 2023.

And if I look at the earnings as a big improvement part. Then on top of that, we have -- as usual, we have the delta between depreciation, amortization and CapEx. So you'll have, what, $1 billion of amortization that's noncash. And then you add to that the working capital part, and we do expect to continue to focus on improving the efficiency, and we expect working capital to continue to be a source of cash, and that will be helped by what I just mentioned, at least in '23 by the 2/3 of the $1 billion of pushout. Well, I would say our more conservative view of the U.S. onshore wind market creates more uncertainty about when we get the progress part and possible restructuring.

So overall, we still expect a significant improvement on profit as well as free cash flow for 2023.

Operator

The next question comes from Julian Mitchell from Barclays.

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

Best wishes, Carolina. Maybe just wanted to focus my question around the sort of operating profit for the second half. So I think you're saying you're at the low end, so sort of $6 billion of full year adjusted op profit is the new guide. That implies, I think, about $3.4 billion of second half op profit versus $2.6 billion in the first half. So you had about an $800 million increase half-on-half. I suppose my point was that in the -- just maybe you could confirm that. And then I just want to understand that step-up in profit in the context of the revenue step-up because I guess your old revenue guide of $76 billion you have a very big implied sort of revenue increase, $8 billion or so in the second half, half-on-half. I'm assuming that number is lower. But maybe help us understand the sort of revised revenue guide for the year and how we're thinking about the half-on-half step-up, what kind of operating leverage we should expect and what price cost is doing in the back half?

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

Julian, thank you for congratulations. I won't to reveal my age here, but thanks anyway.

So on the profit. So no, your math is absolutely right. Let me start by saying that for us, our seasonality is that the second half is really loaded. So we have more than 100% of free cash flow in the second half and the 80% of net income in the second half taking '21 as a reference point. So it's not uncommon. And we do expect to see strong sequential improvement in growth, so that continued to accelerating through the year.

If I look at the different businesses and what you commented on with the profit, we do expect to see about $800 million of profit growth compared to what we saw in the first half. And I would just start by saying, we expect to see improvements in all segments, but excluding Renewables.

So if you start with Aerospace, we do expect to see strong growth from OE deliveries, which is actually driving a mixed headwind, and we expect that to be offset by the shop visits and the services strength that I mentioned earlier today.

On the HealthCare side, we also expect the supply chain constraints to improve, and you've see in our backlog there. So we expect to see healthy growth in the second half as well and a combination of pricing taking hold. I would say while we continue to invest for the future growth, we also expect good profit from HealthCare and on the margin improvement there.

For Power, I would say it's already in the backlog. But the second half deliveries, both the gas turbines and aeroderivatives are already sort of planned for the second half and we see strong transactional services growth as well. And also getting price here.

So I would say when we look at our low-end range, really, the majority there depends on our own ability to deliver. We've talked about sort of 2/3 high convictions and 1/3 that supply chain restraints. And that holds. What we have done now, though, is we've taken a more conservative view on Renewables, and therefore, we no longer expect to see PTC conversion in the year for Renewables. So overall, the numbers are right, and most of that depends on our own ability to deliver.

You also asked about what about price cost. We're very happy to see that we have positive price in all the segments in the quarter, and we do expect that to continue to improve through the year.

We also continue to expect to deliver on our $2 billion of cost out for the full year. That said, we are also seeing, as everyone is, inflationary pressures. We saw them in the first half, but we do expect, depending on long cycle versus short cycle, a little bit of a different impact of inflation in the second half, but still working to mitigate that. So that's overall how we get to the low end of our range.

Operator

Our next question comes from Joseph Ritchie from Goldman Sachs.

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

Happy birthday, Carolina. I hope you have some fun plan later.

Just I guess my question is -- Larry, maybe just -- it's interesting that Slide 4, when you're talking about the progress that you're making across both Aviation and HealthCare. I'm just curious like as you think about the margin trajectory for both of those segments, can we start to underwrite something closer to a high teens margin in the Aviation business? And then maybe just talk about the trajectory of the HealthCare margins from here.

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

Well, Joe, thanks for flagging that page. I think what we're trying to do was just help everybody understand that despite some of these supply chain challenges, you don't need us talking about that macro, it's well documented. It's really about -- at least for us, what are we going to do. And I think in both instances, in Aerospace and HealthCare, we're making some good progress that we just need to make more of. And I think as we do that, we'll not only unlock some of this pent-up organic growth. We talked about 500 basis points overall from the quarter, but particularly in services and Aerospace and just HealthCare broadly, that's going to be, I think, not only good growth but highly accretive growth.

With respect to margins, I think both businesses are marching toward 20%. As we said earlier, with respect to '23 and beyond, we're really now in the throes of our strategic plan process with each of the businesses. As you can imagine, a lot of opportunity in Aerospace that we need to work through. HealthCare, similar but different in that they're preparing for the spin. But I think later on in the year, when you speak with Pete and Helmut, as they get ready, it will be clear that margin expansion and strong cash conversion are very much an important part of their story. I think, first and foremost, they want to demonstrate outsized growth, and we think we're going to be well positioned, both in terms of commercial execution and the innovation investments to do that. And hopefully, that cash conversion can be reinvested both organically and inorganically.

But I think in both instances, you're going to see nice margin expansion as we move forward. As to when we hit 20%, give us a little bit of time and we'll give you an updated view later this year.

Operator

The next question comes from Steve Tusa from JPMorgan.

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

The first half to second half on HealthCare, that $1.2 billion going to something close to $1.8 billion. Just can we get a little more granularity on that? And then the follow-up would just be how do you actually see the cash and earnings for third quarter? How does that split between third and fourth with a little more precision?

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

So if you start with the HealthCare part and the HealthCare margins, because what you're asking is really was the confidence in improving the second half. I would say what we saw that clearly is that we get good orders in, but we still have fulfillment issues and the inflation continues to pressure. And therefore, we now expect profit dollars to be slightly below our prior guidance, so $3 billion, and that on a mid-single-digit top line growth.

And I would say for the second half, with what we're seeing, we are seeing fulfillment and pricing improve meaningfully, and we expect that to continue. And of course, the combination of that will help with significant margin expansion in the second half.

I commented on sales price in the prepared remarks earlier. It was the first time we saw a positive in recent history. We've talked about how we've had that in orders, and now we see it come through in sales and we expect it to continue to improve through the year as well as getting deliveries out.

In parallel, we're also taking actions and the team is working really hard on implementing more Lean and decentralization to drive redundant costs out. Sort of early stages of that, but we expect to see more of that take hold in the second half. And I would say that at the same time, we are investing in R&D and in commercial activities to really drive the growth for the future.

And then you had a question on the third quarter margins as well.

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

Overall third quarter.

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

In general, third quarter. So what we're seeing. So I would start with the headlines, I would say third quarter top line would be trending in mid-single digits. EPS, we would expect to be down year-over-year. And free cash flow, we would expect to be better than previous quarter, but down year-over-year. And if you take that little bit into the context of the second quarter bit, I mentioned this morning that we had some timing impact. So some of the EPS sort of improved second quarter will impact the third quarter. We had sort of the nonrecurring benefits. We also expect to see higher Aerospace deliveries, OE deliveries. So that's going to be a headwind from profit and margins. And then with this typical seasonality in Power, in the second quarter, we have the CSA outages and we have a bit lower margin outages in the third quarter. So overall, that's why we get there on EPS.

And I would say on free cash flow, so it's a combination. You have sort of the impact on the second quarter, the positive impact on the second quarter, but also what happens in the third quarter with the OE deliveries moving out, we also expect to have a bigger impact on AD&A.

And then I would say, finally, we commented on this morning is that we do see the impact of the supply constraints, which basically leads to sort of orders going out later in the quarter, which means the second quarter deliveries pushed out in the third, third into the fourth and the fourth into the beginning of next year, which also puts pressure on working capital. So you can expect to continue to see that in the third quarter. And that's why we expect cash flow to be slightly up quarter-over-quarter but down year-over-year.

Operator

The next question comes from Andrew Obin from Bank of America.

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

I guess I should really be greedy and follow my colleagues, competitors and ask five questions, but I'll stick with one. On supply chain, specifically in Aerospace, Aviation, how do you solve the issue with castings both near term but it also seems it's more of a structural issue for Aviation in the longer term, particularly with a, LEAP ramp-up but also NGAD being and being used. What's your perspective near term and longer term sort of dealing with casting supply chain?

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

Andrew, I would say that if I can just open the aperture a bit relative to the question, it's important that everybody understand that the supply chain challenges in the aerospace industry are far broader than any one commodity at the moment. I mean we see that not only in our own supply chains, but particularly in the wake of Farnborough and the conversations we had there with the airframers and others, this is something that we're grappling with broadly.

I've had an opportunity just in the 4 weeks that I've been in harness at Aerospace to sit with a number of the CEOs and their teams of our core forging and casting suppliers. Here again, Andrew, no silver bullet. This is a ramp that's going to, I think, have us all very much on our toes. I think what we're trying to do is make sure that, first and foremost, our signaling to the vendors is as crystal clear and consistent as we possibly can. I think over time, we've sent many signals, often mixed signals, and it's really tough for them to operate accordingly. I think similarly, both have indicated there are a number of ways in which we can collaborate around design, let alone capacity additions that will serve everybody and ultimately, our end customers better.

So there's a lot of work to do. It will be a multiyear task to ramp as the industry is clearly poised to ramp, but that's a high-class problem where I come from and one we're very keen to tackle with our supplier partners in service of our airframer customers, and that's exactly what we're going to do.

Operator

The next question comes from Scott Davis from Melius Research.

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

I can't think of a worst way to spend your birthday than having to talk to us, but I hope Larry let you leave early today. Let's put it that way.

But Larry, you haven't really talked much about FX. I mean, the dollar has gone through the roof here. And I know Aero stuff is in U.S. dollars. Talk to us about the headwinds you have in the other businesses. Or not only HealthCare.

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

Yes, I would say on FX, for us, our reported sales were 2%. So we had a negative 3 points top line from currency. While on the profit and EPS, it's really an immaterial impact. For us, this is mainly a translation impact because on the transaction side, and you were sort of commenting on that yourself, Scott, that much of our global sales are really U.S. dollar-denominated. Aerospace, no exception. And then with the longer projects that we have, where we have FX exposure, we actively manage that and hedge against those.

So I would say, if you assume the same rates stay for the full year, we would expect a similar impact for the full year. So about 3 on the top line and small on the bottom line.

When it comes to the different businesses, yes, well, it's the ones that are more outside of U.S. based that are impacted. So you see HealthCare and Renewables. In different ways, but they will both be impacted by the translation impact. But overall, it's a small one for GE for the reasons that I mentioned.

Operator

The next question comes from Andy Kaplowitz from Citigroup.

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

Larry, maybe you can give us a little more color into some of the actions you're taking on Renewables in terms of the fixed cost takeout you mentioned, do you end up taking a bigger restructuring at some point? And then you mentioned you no longer expect to step up in profit in the second half, point two. Does that mean you expect as significant losses in the second half as you took in the first half. And as the market stands today, do you still think you could achieve your target of approaching breakeven in Renewables in '23 or at some point in '23?

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

Andy, I think what we had indicated back in April is that we would see another approximately $400 million off-profit drain in the second quarter. Unfortunately, it played out in just that fashion, but we thought we'd see second half a reduction in that drain, approximately $600 million first to second half. Again, that's not happening unfortunately.

I break it down really due to 3 drivers, all of which we've touched on. One, just this more conservative posture in the face of the realities in Washington relative to demand, convertible demand here in '22, the inflationary pressures that have been well discussed and the fleet durability investments that we indicated we're going to make here as well.

So I think you're going to see a second half that resembles the first half more than we would like, but we are working through that. We'll talk again about targets for '23 later. This is still a business that we have confidence in. Even though we may have a lull in demand here in the short term, whether it be energy security, whether it be climate, there will be demand for this business in the U.S. and broadly in attractive markets over the medium and long term, and I think we're well positioned to play there.

It's important that everyone remember that while we talk about Renewables as a segment, we've got 3 different dynamics within the segment. We've got Offshore Wind, which is a growth play for us. We knew that would be an investment over the next -- over several years. Grid, which is rapidly approaching breakeven. And it, too, has, I think, a role to play in the energy transition. How long it takes us to get to breakeven? Again, Andy, we'll talk about it in more detail later.

But most importantly, we are going to deal with the fixed cost, the so-called fixed cost in the business. But that's just one plank of the plan, right? We've got to do a much better job in terms of modularity and design to not only improve quality and delivery, but frankly, to bring down unit costs.

What we've talked about in terms of selectivity and price is really important here. We can't chase every order. And we need to continue to make substantial improvement with respect to capturing value for what we deliver.

The decentralization of Renewables as a segment and even within the businesses is something that will help not only, I think, reduce cost, but more importantly, improve our execution day in, day out. And that's against the backdrop not unlike we did a few years ago with Gas where we're just going to take a more conservative view for planning purposes of volume, mindful that this lull in the market, again, will be short-lived.

So there's a lot going on there. We're going to need some time to work through it. But given what Scott and team did in Gas and Power broadly over the last several years, I think we have, again, confidence that we'll run a similar set of plays to get not only to break even, too, but far more respectable returns in that business.

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

Cheryl, we're going to make time for one more last and hopefully brief question.

Operator

Our final question comes from Josh Pokrzywinski from Morgan Stanley.

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

So to keep Steve happy, I'll keep it brief here on my end.

Just on the Aviation ramp here, they're kind of a little later to the party on supply chain maybe versus some of these chip-oriented businesses like HealthCare. What's the confidence from here in terms of maybe the ability to ramp sequentially. Talk a little bit about that in the context of by, I think, Andrew Obin's question, but maybe with shop visits as well, where you had some issues in the first quarter, I think, relative to plan. And related to that, how long can the spares dynamic sort of offset whatever gap is forming there?

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

Well, Josh, I -- a couple of things there. Let me try to cut through it.

What matters most is the customer. And for sure, the spares in the aftermarket helps us financially at a time like this. But we don't want to have that in any way dilute our focus on shortening cycle times and improving on-time delivery, right? We know our major airframer customers need more engines from us than we are providing, and that will be the case for the foreseeable future. So we need to ramp, again, in a predictable, reliable, stable way. That's what they want more than anything so that they can plan the rest of their assembly operations accordingly. And that's where we're focused.

So there are a whole host of things that we've touched on here relative to our own operations, which we're driving in terms of improving yields, improving capacity and the like. And the same thing applies in the supply base.

I think the distinction, Josh, I would draw with semi is that semi didn't have the dramatic downturn that this industry, and I say the industry, saw with COVID and then the dramatic spring back. So when the industry was turned down to such a degree, right, and we can talk about this commodity, that commodity, I would argue you see a similar dynamic with some of the pilot shortages that we hear about, some of the operating challenges the airports are going through. This is an industry that was nearly mothballed that is working very hard to come back to meet ultimate leisure and business travel demand, and we're very much a part of that industry and have our version of those challenges. But we're on it.

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

Great. Larry, any final comments before we wrap?

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

You bet, Steve. I know we're tight here. But to close, I appreciate everybody staying in overtime with us. We delivered a strong quarter. The actions we're taking to improve delivery, price and cost performance are building meaningfully stronger businesses at GE, and our planned spins are on track.

We appreciate your interest in GE, your investment in our company and your time today. Steve and the entire IR team stand ready to assist as you consider GE and your investment processes.

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

Okay. Thank you.

Operator

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