General Electric Company (GE) CEO Discusses Q2 2013 Results - Earnings Call Transcript

Executives

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Analysts

Scott Davis - Barclays

John Inch - Deutsche Bank

Jeffery Sprague - Vertical Research Partners

Steve Winoker - Sanford Bernstein

Deane Dray - Citi Research

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Steve Tusa - JPMorgan

Jason Filman - UBS

General Electric Company (GE) Q2 2013 Earnings Conference Call July 19, 2013 8:30 AM ET

Operator

Good day ladies and gentlemen, and welcome to the General Electric second quarter 2013 earnings conference call. At this time all participants are in a listen-only mode. My name is Shaquana and I will 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, Trevor Schauenberg, Vice President of Investor Communications. Please proceed.

Trevor Schauenberg

Thank you, Shaquana. Good morning, and welcome everyone. We are pleased to host today's second quarter webcast. Regarding the materials for the webcast, we issued the press release earlier this morning and the presentation slides are available via the webcast. The slides are available for download and printing on our website at www.ge.com/investor.

As always, elements of this presentation are forward-looking and are based on our best view of the world and our businesses as we see them today. Those elements can change as the world changes. Please interpret them in that light.

For today's webcast we have a large group here. We have our Chairman and CEO Jeff Immelt; our Vice Chairman and new CEO of GE Capital, Keith Sherin; and our new CFO for GE, Jeff Bornstein.

Now let's turn over to our Chairman and CEO, Jeff Immelt.

Jeffrey Immelt

Thanks Trevor. Good morning everybody. On the first page, our environment improved slightly in the second quarter. Emerging markets remained resilient while Europe stabilized. Orders in the US were the strongest we've seen in some time with 20% growth and overall our orders grew by 4% and backlog increased to $223 billion.

Earnings were solid. Reported EPS was $0.36, but this includes $0.02 of uncovered restructuring. On a sustained basis it would have been $0.38, up slightly from 2012. And year-to-date EPS is $0.75, up 6%.

Operations were strong in the quarter. Margins grew by 50 basis points and we're on-track for 70 basis points for 2013. Our simplification efforts have resulted in $470 million of costs year-to-date and we had a solid performance in cash. Our disciplined and balanced capital allocation plan continues. Through the half we have return about $10 billion to investors while on the way to our $18 billion goal. As for M&A, we've completed Lufkin and Avio and Avio remains on-track for a third quarter close. So, all in all a good quarter for operating and strategic execution.

Our orders growth remained solid at plus 4% and as I said earlier, backlog grew to $223 billion. Performance was broad based. We had services grow in five of our six businesses. Orders growth accelerated in China, the US and Europe. Aviation and oil and gas remained very strong, with their combined backlog growing by $7 billion.

Let me give you a few other highlights. Oil and gas orders grew by 24% with double digit growth in four of five segments. Aviation commercial spare orders grew by 19%. Healthcare Solutions equipment orders grew by 9% in the US. Energy management orders grew by 19%. North American power generation service orders grew by 24%. We still have a few headwinds like heavy duty gas turbines, but there are signs of strength. We continue to add price to backlog with orders pricing up 0.9% and we have now had positive orders priced for the past six quarters. This will contribute to a positive value gap in the second half of 2013 and beyond.

Our organic growth was down 1% for the quarter but it's really a wind turbine story. Organic growth ex- Power & Water grew by 5%. Growth markets expanded by 5% with four of nine regions up by double-digits. We continue to make progress in key regions like Russia, Africa and China. Our growth market position is a competitive advantage for GE. Services grew by 2% with broad-based strength and we are encouraged by services in aviation, oil and gas, and transportation. Transportation services is of particular highlight with growth of 28%.

We continue to be impacted by the sluggish European economy for gas turbine services and U.S. sequestration impacted our military spares business. The service margins grew by 70 basis points and backlog grew to $166 billion. We made solid progress across the company with our new product launches. The Paris Air Show was very successful for GE with $26 billion of wins. We are gaining share in healthcare with robust product launches and are expanding service offerings with new software launches in aviation, power and healthcare.

In the second half, revenue will be positively impacted by power and water shipment timing, specifically 70% of our gas turbines, wind turbines and distributed power products will be shipped in the second half. We have strong margin expansion with growth of 50 basis points. Every business grew in the quarter except for home and business solutions, and even in that segment appliances expanded while lighting lagged. And we are on-track for 70 basis points for the year. Key margin execution drivers are within our control. We will have one of the strongest value gaps in history as generate both price and material deflation. We will manage R&D to be flat for the year. We will reduce SG&A by at least $1 billion. We continue to execute multiple restructuring projects with attractive paybacks. And we are in the process of completing our projects for 2013 while developing a pipeline of new ideas.

The key driver for margin improvement in the second half is the power and water volume growth where we remain on-track. Overall margins were slightly better than we expected in second quarter and that gives us more confidence going forward. Our cash execution improved in the quarter. Our second quarter industrial CFOA was up 60% excluding the impact of NBCU related taxes. In the quarter we announced that GE Capital will pay up to $6.5 billion dividend to the parent for the year. And we remain on-track for our CFOA goals.

We have returned $9.9 billion to investors in the first half through dividends and buyback. This is well on our way to our $18 billion goal. Our announced deals of Lufkin and Avio will close in the second half. Both fit our model of (inaudible) that are accretive to earnings. We end the quarter with a consolidated cash position of $89 billion with $19 billion at the parent. This is a symbol of our financial strength and supports balanced capital allocation. And now over to Keith, as you know this will be his last call, but you will see him again at GE Capital and welcome to Jeff, my new partner.

So, Keith, over to you.

Keith Sherin

Jeff, thanks. So I will start with the second quarter summary. We had continuing operations revenues of $35 billion, that was down 4% from last year. Industrial sales of $24.6 billion are down 2% driven by power and water as you can see on the right side. GE Capital revenues of $11 billion were down 3%, operating earnings of $3.7 billion were down 8%. Operating earnings per share of $0.36 were down 5%. As Jeff said, that includes actually $0.03 of restructuring which I will cover on the next page, including the capital restructuring. And we also no longer have the NBCU earnings which was $0.02 in 2012 in the second quarter.

Continuing EPS includes the impact of non-operating pension and net earnings per share includes the impact of discontinued operations which I will also cover in the next page. As Jeff covered, the CFOA was $3.7 billion, including a very strong performance in Q2 from the industrial CFOA, plus $1.9 billion of GE capital dividends back to the parent. For taxes, the GE rate of 17% for the quarter is below the 20% rate we previously communicated for the year. We had an audit resolution with the IRS in the quarter and because that’s required to be recorded entirely in the quarter rather than spread over the year, it caused the rate to be lower in the quarter.

We might have other audit resolutions during the year and depending on the outcome we currently expect the rate of high teens to 20% for GE for the full year. The capital rate is down from our forecast because of larger benefits including the tax efficient foreign disposition transactions as well as the recapture of prior un-taxed losses of real estate. As we previously indicated, we do expect the GE Capital rate in the mid-single digits for the year but there could be some variability as GE Capital as well depending on IRS audit resolutions and the tax on other possible dispositions.

On the right side you can see the segment results. Total industrial segment profit was up 2%. Ex-Power & Water, our industrial businesses grew their segment profit by 12%. Power & Water was down in the second quarter. However, the results were a significant improvement over Q1. GE Capital earnings were down in the second quarter, in line with lower assets and we will cover all the segments in more detail over the next several pages.

Before I get to the businesses, I will start with the other items page from Q2. At the top, in total, we had $0.03 of restructuring and other charges in the quarter; $0.02 related to industrial and that's in the corporate line of the industrial recording, and $0.01 was in GE Capital. We continue to reduce our cost structure by lowering our SG&A headcount. We're rationalization our footprint and this should be a nice tailwind for margins as we go into the second half. We also had a $0.01 charge in the quarter related to an impairment for an investment that we made in Brazil and that charge was also included in the corporate line.

We had two one-time benefits in the quarter. First, as I mentioned on the previous page, we had a favorable IRS settlement, which resulted in almost four points lower GE tax rate in Q2 and in total contributed $0.1 in industrial benefit. And second, in GE capital, we exited our fleet platform in Canada, which resulted in a $0.1 benefit in the quarter and the benefit from this transaction was mostly tax related and contributed to a lower GE capital tax rate.

For discontinued operations at the bottom of the page, we had 122 million after tax impact in the quarter. In WMC we recorded a $128 million of new pending claims, so that's down significantly over the run rates that we’ve been seeing. And we added $47 million of reserves in the quarter, resulting in a total reserve balance of $787 million, covering both pending and future claims. On gray zone, we booked $76 million of additional reserves to reflect ongoing claims and we ended the quarter with $557 million in reserves.

On the bottom of the page is a summary of our operating EPS and our industrial gains and restructuring. In the first quarter, we reported $0.39 of operating EPS and that included $0.04 of net benefit as in Q1 NBCU gain was greater than our industrial restructuring. In Q2, we reported $0.36 and that included a $0.02 drag from industrial restructuring, again in the corporate line. And we expect to have at least $0.02 more of industrial restructuring in the second half. So for the total year, we don't expect the NBCU gain in restructuring to have an any impact on EPS.

So I'll move on to businesses and let me start with Power and Water. Orders of $6 billion were down 1% and Europe remained challenging, down 40%. Ex-Europe, orders were up 6%. Equipment orders of $3 billion were down 5%. Thermal orders remained soft at $690 million, down 50%. We had orders for 24 heavy duty gas turbines versus 30 last year. We had a strong renewables quarter with orders of $1.4 billion, up 55%. Distributed Power Orders of $700 million were up 3%. And Service Orders of $3 billion were up 2%. Again ex-Europe services orders were up 13% driven by the strong U.S power gen services, both outages and upgrades with orders up 29%. Overall for Power and Water, orders pricing was up 1.6%.

Revenue of $5.7 billion was down 17% driven by lower volumes. Equipment revenue of $2.6 million was down 30%. We shipped 19 gas turbines versus 31 last year and we shipped 351 wind turbines versus 726 last year. Service revenue of $3.1 billion was down 3%. Power gen services revenue was down 1% total, but up 14% ex-Europe again, driven by the strength in the U.S. which was up 20%. Segment profit of $1.087 million was down 17%, driven by the lower volume. SG&A cost were down 9% in Q2, value gap was positive and margins increased by 10 basis points.

So Q2 showed improvement over Q1 for Power & Water. If you look at the second half dynamics, as just said we've got a lot of volume and we expect Power & Water volume to be higher in the fourth quarter than third quarter. Renewables will continue to improve. Distributed power and services continue to improve and costs are going to continue to go lower. So our current outlook is to deliver the total year framework that Jeff covered on Power and Water and EPG.

On the right side is Oil and Gas. Results in the second quarter were very strong. Orders of $5 billion were up 24%. Equipment orders of $2.8 billion were up 42%. We saw double-digit growth across all the segments with turbo machinery up 74% driven by U.S. midstream LNG orders . Subsea was up 30%, driven by large projects in Indonesia and Angola. Service orders at $2.3 billion were up 8%. We saw a nice growth in global services up 14% and we are making significant progress in growing our sub-sea service business which was up 44%. This was partially offset by measurements and controls which was down 1%.

While still down, this is up from the first quarter when M&C was down 13%, so some improvement in the market. Our backlog grew by $1.1 billion in the quarter to $18 billion and our orders pricing was up 80 basis points, our ninth quarter of positive order price increases. Revenue of $4 billion was up 9%, equipment revenue of $2 billion was up 11% driven by growth in subsea and drilling and surface. And service revenues of $2 billion were up 6% driven by stronger global spare parts sales.

Segment profit of $532 million was up 14% as the benefits of higher volume, positive price, and SG&A reductions more than offset higher program spending and drove 70 basis points of margin expansion. Our next is aviation. The aviation team had a strong quarter. Orders of $5.8 billion were up 4% with equipment orders of $3.2 billion up 7%. Commercial engine orders of $2.5 billion were up 81% driven by $1.4 billion of CFM orders including $670 million of LEAP orders. Military equipment orders of $300 million were down 72%, driven by no repeat of the Saudi F-110 order last year, which was $890 million.

Service orders of $2.6 billion were up 1%, commercial service orders of $2 billion were up 11%. The 2Q average daily spares order rate was $24.6 million, up 19%, as we continue to see a nice rebound from the higher year-to-date GE fleet utilization that's up 2.6% globally, and as airlines' shop visits and parts restocking return to more normal buying behaviors.

Military service orders were down 25% as we are seeing some impact from reduced flight hours and inventory management. Overall for aviation, order pricing was up 2.5%. Revenue of $5.3 billion was up 9% driven by equipment up 12%. We shipped 596 commercial engines in the quarter which was up 30 units or 5%. We shipped 33 GEnx units, up from 27 last year, and we shipped 280 military engines which were 21 units or 8%. Service revenues of $2.6 million were up 6% driven by commercial services up 12%, partially offset by military services which was down 6% on lower spare parts. Segment profit of $1,067 million was up 16%, driven by the strong value gap. Pricing up 3.6% and also by higher volume, and margin rates grew by 1.1 points in the quarter.

On the right side is healthcare. Orders of $4.8 billion were up 2%, equipment orders of $2.8 billion were up 4% and that's seven points better than we saw in the first quarter. Developed markets were up 3% with the U.S. up 5%, Europe was up 7%, Japan was down 26% but it's down 8% excluding the impact of foreign exchange. Developing markets were up 8% driven by China up 16%, Latin America up 4%, India up 1%. If you go by modality, MR was up 14%, CT was down 6%, ultrasound was up 13%, life sciences was down 1% and diagnostic guidance systems was down 5%. Service orders of $2 billion were down 2%. Revenue of $4.5 billion was flat and again that's driven by the growth markets up 10%, offset by the developed markets down 4%. Segment profit of $726 million was up 5% as the benefits of restructuring and higher volume more than offset the impact of lower pricing and margin rates were up 80 basis points in the quarter.

Next is transportation. Orders of $1.1 billion were down 23%, equipment orders of $441 million were down 45%. So we continue to see the impact of soft North American locomotive and global mining equipment markets. Service orders of $633 million were up 7% driven by locomotive services. Orders pricing was up 40 basis points and revenues of $1.6 billion were up 2% as the growth in signaling and parts more than offset lower equipment revenues which were down 14%.

We shipped 170 locomotives in the quarter versus 243 last year. Segment profit of $313 million was up 11% driven by the positive value gap in services growth which also drove margins up 160 basis points. Energy management had a strong quarter versus last year. Orders of $2.3 billion were up 19% driven by digital energy up 24% and power conversion up 20%. We saw a strong growth in digital meters and in the marine segment in Brazil and China. Revenues of $2 billion were up 6% driven by power conversion up 7%, partially offset by lower revenues in digital energy.

Segment profit of $31 million was up from $4 million last year driven by the improved value gap, and segment margins were up 140 basis points. Home and business solutions had another positive quarter. Revenues of $2.1 billion were up 5% as 8% growth in appliances was partially offset by a 4% decline in lighting sales, and segment profit of $83 million was up 5%. Appliances was up 31%, driven by positive pricing and lower program spending, partially offset by the results in lighting. Margins were flat for the quarter and we continue to see strength in the housing. Second quarter housing starts were up 18% boosted by single family up strong double-digits and multi-family starts of over 20%.

So with that, let me turn it over to Jeff Bornstein to cover GE Capital.

Jeffrey Bornstein

Thanks Keith. GE Capital revenue was just under 11 billion in the quarter, down 3% driven by lower assets, partly offset by high gains. Assets were down 7% or $37 billion year-over-year. Net income was $1.9 billion, down 9% from prior year, primarily driven by lower assets and higher gains were offset by losses margin impairments in the quarter. Tax benefits were essentially flat year-over-year with a rate down driven by lower pre- tax income on lower assets. We ended the quarter at $391 billion of ending net investment. That's down $40 billion from last year and down $11 billion sequentially. Our net interest margin was up 18 basis points versus 2012 to 5% and flat with the first quarter. Tier 1 common ratio on a Basel I basis improved to 11.2% in the quarter, driven by the reduction in investment in the balance sheet and after paying $1.9 billion in dividends in the quarter.

On the right side of page, asset quality trends continue in the right direction, with delinquency rates improving across the portfolio. The only exception being the seasonality we expect in our UK mortgage business. In addition, non-earning assets totaled $6.6 billion. That's down $600 million from the first quarter and down $1.6 billion versus last year. CT ended the quarter with $36 billion, well on its way to the $35 billion plan for the year. And liquidity was very strong, ending the quarter at $70 billion.

Now I'll walk you through the segment performances. CLL, Commercial Lending and Leasing businesses ended the second quarter with $174 billion of assets. That's down 6% from last year, driven by a reduction of non-core assets of about $7 billion and $4 billion of lower core assets primarily driven by asset sales, including the fleet Canada disposition Keith referred to. On-book core volume was 6% higher than the second quarter of 2012. And new business returns remain attractive at about 2% returns on investment.

Earnings were strong across all the regions and up 31% total driven by the fleet disposition, asset sales, higher tax benefits in Europe, partially offset by asset impairments. Asset quality continued improving, with delinquencies down 50 basis points versus last year and non-earning assets were down 30% versus the second quarter of 2012. In the consumer segment we ended the quarter with $136 billion of assets, up 1%. Net income of $828 million was down 9%, primarily driven by the removal of reserve seasonality in our U.S retail business under the new modeling approach that we completed in the first quarter. We expect reserve coverage in the U.S. retail business to be above the same in the third quarter.

The U.S. retail business earned $563 million in the second quarter, down $78 million from last year, driven by the reserving change I just mentioned and partly offset with core growth. Asset growth in this business was strong at 9% and asset quality continues to set new benchmarks, with 30 day delinquency down to 3.85%. Our core Europe business earned $149 million in the quarter, which was essentially flat year-over-year. The real estate team continues to execute very well. Assets ended the quarter of $42 billion. That's down 28% year-over-year. Net income of $435 million was up two times versus 2012. And that was driven by higher gains on the equity portfolio on higher tax benefits. The business sold 180 properties with a book value of $1.9 billion for about $200 million in gains in the quarter. Asset quality continues to improve with 30 day delinquencies on the debt book at 2.1% and that's 6 basis points lower sequentially.

The verticals, GECAS earned $304 million. That's down 1% with assets down 3%, driven by lower gains on aircrafts sales and modestly higher impairments on aircraft held for sale. Returns remained very attractive on new volume. EFS earnings were down driven by the impairment of a single-asset in our energy book and modestly lower gains across the portfolio. For our total results, we did have roughly $300 million of tax provisions in the GE Capital Corporate that partially offset the tax benefits in the segments to book to a total year expected rate of mid-single-digits. This along with a non-repeat of $200 million of tax benefits from BP, Business Properties transactions in the second quarter 2012, explains the higher corporate charge year-over-year.

So overall, GE Capital continues to perform well. Its results were in line with our strategy to reduce the size of the business. And as you look forward to the third quarter with the loss of earnings we're shrinking assets and adjusting for one-time items, the normalized run rate for GE Capital was still in the range of about 1.8 to 1.85 in earnings.

So with that, I'll turn it back to Jeff.

Jeffrey Immelt

Great, Jeff, thanks. As for the framework, we have really no change to the 2013 operating framework. We're not planning for an improved environment for the balance of 2013 but execution levers are in our control, a solid backlog, good technology, strong cost control and disciplined capital allocation. In addition, we have a very diverse global footprint, which is well positioned for the macro tailwinds that are out there like in oil and gas. So again, as I said, no change for 2013 operating framework. We still plan on solid investment earnings growth for the year, driven by expanding margins. Our second quarter profile supports this growth. GE Capital will have solid growth for the year and we have no change in our framework for corporate costs for cash.

We still plan on double-digit EPS growth for the year. So, everything is consistent with what we said at EPG and we are well positioned to deliver for investors. And in conclusion, let me recap our status versus investor goals we set for the year. First our industrial earnings growth will improve during the year. Power & Water was a drag in the first half but should have positive earnings growth in the second half. The other segments are executing. So, we should see strong growth for total industrial in the second half. We plan to achieve 70 basis points of margin improvement for the year.

The second quarter exceeded our expectations and the teams did solid job on execution. We expect to receive up to $6.5 billion dividend from GE Capital this year. Organic growth will likely be at the low end of our 2% to 6% range for 2013. Again, the wind turbine cycle is a headwind, but we're well positioned for the future with a solid backlog and the balance of our industrial businesses should grow in line with our 5% to 10% organic growth goal. We're on track to return $18 billion to shareholders through dividends and buyback. So for GE this is a solid quarter and we're on track for a good year.

Now, I will turn it back to you and we will take some questions.

Trevor Schauenberg

Great, thanks Jeff, Keith and Jeff. So why don't we open up the lines and take some questions.

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from the line of Scott Davis representing Barclays. Please proceed.

Scott Davis - Barclays

Jeff, when you think about last quarter and the disappointing margins you put up, your confidence in the 70 basis points for the year seemed to be somewhat wavering and maybe it seems like your each call. I mean putting up the 50 basis points this quarter, does that indicate to you an increased confidence that you're going to see this back half of the year margin ramp particularly given what you saw on value gap?

Jeffrey Immelt

You know, Scott, it really does. Again, I think the teams have been executing well. I would decompose a little bit the way we talk about margins. The value gap is on track to be significantly positive this year. Our SG&A, our simplification efforts I think are just gaining momentum. So that looks good. R&D, I think levelizes for the year, mix levelizes for the year. And the power & water units are in backlog. So, Scott, I think as we execute that ramp, we feel pretty confident in the 70 basis points for the year. We still have a slight hedge in the numbers and I just think we're building momentum.

Scott Davis - Barclays

Make sense. And if I -- I know it's hard when you look at backlog and orders just given the timing to figure out exactly when the revenues are going to pull through, but when you really look at the order growth and the fact that you're getting, I mean you are down including wind but excluding wind up 5%, you said. But you say it in the slides not counting on environment, improving, but the order book does imply that the back half of the year is going to have some unit volume tailwind. Am I reading that correctly?

Jeffrey Immelt

Oh, yeah. It definitely does. Just given the way the wind -- Scott, like you know, just looking at the wind profile, if you look at power & water, it's going to strengthen in the second half. And the other businesses I'd say are already demonstrating some nice momentum. So things like aviation spares which were a drag last year have turned into a tailwind this year. Oil & Gas, I'd say four or five segments double-digit orders growth, even M&C I'd say better quarter. So if you just take through one-by-one, you're going to get some gathering momentum I think in the second half of the year.

Scott Davis - Barclays Capital

And just a clarification, the loss in Brazil, I assume that's the EBX, Eike Batista, investment?

Jeffrey Immelt

Yeah, that's right.

Operator

Your next question comes from the line of John Inch, representing Deutsche Bank. Please proceed.

John Inch - Deutsche Bank

I have a couple of clarifications. So just want to confirm were there any gains that you would consider one time within the industrial segments that might have helped to the 50 basis points of margins this quarter?

Keith Sherin

We had a small disposition in aviation, but it was immaterial, John. In total across the industrial segments the impact of gains was zero.

John Inch - Deutsche Bank

And then the rise Keith or Jeff in the year-over-year corporate, you did call out the asset impairment of $0.01, but was there any industrial reclassification in the way you look at the businesses that might have again -- sorry to be nitpicky, but may have helped the margins and then in turn that flowed through the corporate line? Or why was the corporate up as much as it was?

Jeffrey Bornstein

There was no reclassification, but I can take you through corporate. If you look at the corporate second quarter number, it's a $1.883 billion. Remember you've got to take out the non-operating pension which on a pre- tax basis is 661. So we're the $1.2 billion in the quarter. There is really three things. We have $280 million of pre- tax restructuring in corporate, which is the $0.02. And again that for the year will be against the NBCU gain. We have the impairment of $108 million in the corporate line. And then the third thing not really related to corporate, but it just flows in that line is that GE Capital preferred dividend of $135 million. So if you take the second quarter and you get to a run rate, you're basically at the run rate we need to be, about $3 billion for the year.

John Inch - Deutsche Bank

That makes sense. Keith, can I ask you about WMC in Japan? We're still taking charges for it. And just remind us, if I'm not mistaken, wasn't there a statute of limitations in New York that prospectively makes the run rate on WMC hopefully or you tell me much lower going forward? And then maybe this is for Jeff, is there not an opportunity to pay off these Japan liabilities sometime early next year? I'm just wondering what -- I realize it's still early, but Jeff what your thoughts are toward perhaps pursuing that kind of attack?

Jeffrey Immelt

I think I can start with both of those for you, John. On WMC, yes the statute limitations runs six years from the date of the securitization and we basically have completed all the securitizations that came out of WMC of going through that six year period now. And I think that's why you see a slowing of the additional pending claims. And so we need to resolve these. We're in negotiation and discussion on the claims and we're going to work away through as you go through the second half of the year and we'll continue to update you. From a Japan perspective, there is a contractual discussion point in the first quarter with Shinsei. And we will have a discussion with them and whether we can reach agreement or not remains to be seen, but there is an opening there in the first quarter that we'll be pursuing and negotiating with them.

Operator

Your next question comes from the line of Jeff Sprague representing Vertical Research Partners. Please proceed.

Jeffery Sprague - Vertical Research Partners

Just first just back on the question of gains, it netted out year-over-year in the quarter, but can you just put a finer point on what it actually was TransDigm and what other stuff you might have had?

Keith Sherin

The Aviation TransDigm benefit was immaterial in the segment. And I didn't say it netted out year-over-year. I said it was zero in the quarter in the segments.

Jeffery Sprague - Vertical Research Partners

I thought you said net neutral year-over-year.

Keith Sherin

No, no. In the quarter the small benefit we got in TransDigm in Aviation, if you go to the segment profit level, it was zero across the segment profits for the industrial businesses.

Jeffery Sprague - Vertical Research Partners

And just shifting to power, so power price looked decent in the quarter. I just wonder if you could give us a little color around service price versus order price and what's driving that?

Keith Sherin

Sure. Power & water, if you look, the equipment pricing was up 3.5% in the quarter. Service pricing was down three-tenths and overall up 1.6%. Thermal and PGS was down 2.2%, renewables was very strong up 11%. Those will be the biggest drivers.

Jeffery Sprague - Vertical Research Partners

And then just a little more color, if you could, on just what's going on in service. Europe, obviously weak, it sounds like you got little less there maybe. How do you see that plan over the balance of the year?

Jeffrey Immelt

Yeah, I think one bright spot in service is certainly in the U.S. If you look at the U.S. PGS, the orders were up 29%. In the first quarter we talked about some advanced gas path upgrades, the team did a pretty good job executing in the quarter. They had about 12 of them in the quarter and that's a good sign for us. In the U.S. service business revenues were up 20%. In Europe, the PGS had a really challenging quarter, down 59%, Jeff. The fleet operating hours, we had reduced outages, it's UK, Italy and Spain. So, we're seeing some positive benefits of fleet in the U.S. and we're more than offsetting the drag that we have from the fleet in Europe right now in the PGS business.

Operator

Your next question comes from the line of Steven Winoker representing Sanford Bernstein. Please proceed.

Steve Winoker - Sanford Bernstein

First a quick clarification, again, on that corporate versus segment impact restructuring and other charges, that was $0.03. Was any of that in corporate or is it all in the segments?

Keith Sherin

No. If we go to the corporate line you adjust for the non-operating pension. Out of the $1.2 billion, there is $280 million of restructuring on a pre- tax basis, that's industrial. There is another penny that's in capital and corporate. So out of the $0.03, $0.02 is in industrial and $0.01 is in Capital.

Steve Winoker - Sanford Bernstein

But that 281 is counted in the -- is part of that 183 right?

Keith Sherin

Yes, it is.

Steve Winoker - Sanford Bernstein

Okay. So that was in corporate, okay.

Keith Sherin

Right. And so was the NBCU gain in the first quarter, and we said the restructuring will be in corporate through the year.

Jeffrey Immelt

Just to be [clear], because I want to make sure it really gets all right. On the NBCU gain…

Keith Sherin

Sure. So in the first quarter we had the NBCU gain. We made a set of decisions to lower our cost structure in the company. From an accounting perspective, you have to actually complete all the actions to book the accounting charge to reflect the downsizing that you're doing. And so not all that could happen in the first quarter. We have additional work to do to identify and complete the projects. So, we had $0.04 of restructuring in the first quarter against the NBCU gain and that left a net of positive $0.04 in that first quarter EPS. In the second quarter, we had a [negative] $0.02 after tax of industrial restructuring. And in the third quarter and the fourth quarter will probably have another penny at least each quarter. So, that for the year, Steve, basically it's a zero, it's in the corporate line. And the first quarter was a net positive and the second quarter is a net drag, and the third and fourth quarter will be a slight net drag.

Steve Winoker - Sanford Bernstein

Okay, great.

Keith Sherin

Does that help?

Steve Winoker - Sanford Bernstein

Yeah, it does a lot, thanks. And then on the -- a little more clarification on the GE Capital side guys, since we have a lot of GE Capital horsepower there now. Just the CRE…

Keith Sherin

(Inaudible) also before, I think.

Steve Winoker - Sanford Bernstein

No, no, no, it's always good, right. The commercial real estate gains, the $200 million you talked about, we continue to see an environment where you're getting these every quarter. I mean as you run down that book, what's your visibility to that going forward and how long and sustainable it is?

Jeffrey Immelt

Yeah, so we did have 200 in the quarter, and the team has done a pretty good job as we have reduced that book down to about $17 billion of our investment, doing that as profitably as possible. It is going to get progressively more difficult to generate the same level of gains unless we continue to see improvement in the markets where we're selling these assets. So we've been very focused in the U.S., that's where the recovery has been the biggest, the fastest. We're seeing some signs of life in Europe, in Northern Europe and UK and France. But it's still a long way to go there and Japan is a little bit better. So, I think there still will be the opportunity to generate gains. Whether we will be able to generate as we move down the next $17 billion at the same rate, I think remains to be seen. I think that’s going to be a little bit of a challenge.

Steve Winoker - Sanford Bernstein

Okay. And then on the provisions side, they were at least a little lower than I was expecting. Can you maybe just comment on how you're thinking about the amount of provisions in the quarter?

Jeffrey Bornstein

I think provisions came in above where we thought they would be. They were up about $300 million year-over-year. $200 million of that was associated with our retail business in the U.S. And we went through that reserve model change that we completed in the first quarter. One of the outcome of that is we removed the seasonality that we historically have had in the second quarter. And so that didn't repeat year-over-year. And then we added $100 million of reserves in CLL, principally in our U.S. CLL business. So I think provisions came in just about where we expected them. They were down sequentially because we made that final change in the retail reserves in the first quarter, which was like $600 million. So that's why they sequentially look lower.

Steven Winoker - Sanford Berstein

And maybe to sneak one last in for Jeff. Energy management and intelligent platform, does that continue to be a targeted growth area both acquisitively and organically?

Jeffrey Immelt

It is organically, I would say, Steve. There has been commentary about transactions and even though we don't like to specifically talk about companies, I would say when you guys think about what we've outlined in terms of the priorities for the company, the one transaction that's been rumored really doesn't fit our stream as to the kinds of places we're going to put capital . So, is that the good way to answer your question Steve?

Steven Winoker - Sanford Berstein

Couldn’t be more direct. Thanks Jeff. I'll pass it on.

Operator

The next question comes from the line of the Deane Dray, representing Citi Research. Please proceed.

Deane Dray - Citi Research

Best wishes to Keith and to Jeff Bornstein in their new responsibilities. Jeff Bornstein, since you’re on the hot seat now, how about just some color -- I know it was forgone conclusion that GE Capital would be declared a SIFI, but just as there -- are there any consequences regarding capital requirements reporting and so forth?

Jeffrey Bornstein

Yeah, I don't -- we have been in preparation for this day for the better part of two or three years. We've had the Fed with us for the last two years. We have been running in parallel all of the processes you see in the major banks running, whether that's stress testing, preparing ourselves with a recovery plan and working early innings on a resolution plan. So I don't think incrementally it is anything that we won't be able to deal with. I think our capital is in very, very good shape. I think our processes are improving every day. So I don't think that the margin, that the designation is going to mean all that much to the business.

Deane Dray - Citi Research

And then for Jeff Immelt, at EPG there was a lot of focus about prospects for a staged exit of the business and how the proceeds would be used for buybacks and changing of GE's earnings mix. Can you give us any update as to where that process stands?

Jeffrey Immelt

Yeah, I'd say notionally, Deane, we're still on track for what I talked about at EPG. Again I don't think we're quite ready to talk detailed specifics. But you'll be hearing from us in due time, but the notion, the strategy that we outlined at EPG is still on track.

Operator

Your next question comes from the line of Nigel Coe, representing Morgan Stanley. Please proceed

Nigel Coe - Morgan Stanley

First of all Jeff and Keith, congratulations on your new roles. Just wanted to go to back to the price cost benefit this quarter, the value gap of 293. How does that compare to the plan? And given that pricing and orders are improving, the backlog price is improving, raw material environment remains to be benign. How does that develop over the balance of the year?

Jeffrey Bornstein

You've seen our pricing and orders quarter-after-quarter, six quarters of positive OPI across the company. That's coming through in revenue. This quarter we had 1% positive price in sales. I think that continues. I think we've put it into the backlog and with the OPI strong on the new orders coming in, I think you're going to continue to see pricing. I think the change that we've seen year-over-year has been a big improvement in deflation. Last year at the half we had close to $60 million of inflation and this year we've got significant deflation. So, I think we expect that to continue. We do a lot to lock in our purchases on a forward buy basis. So we're feeling pretty good about the value gap, Jeff, talked about it. I think that's going to be, as we show on the margins chart, a significant contributor to us getting to the 70 basis points this year. And as you listen, as we go business-by-business, we talked about the value gap and just about every one of the segments been a positive contributor. So the teams have been focused on pricing. They're focused on delivering projects at the margins we quote or better, and the sourcing deflation has been positive for us this year.

Jeffrey Immelt

It's going to be -- this is going to be better than our plan, and I think that's where the source of our hedge is going to come from.

Nigel Coe - Morgan Stanley

Okays. So you think there is a point or more of margin benefit in the back half of the year from price inflation. And then, obviously the power and water margins were pretty incredible given the sharp decline in revenues, and you call that the price value gap obviously, and then mix. And I'm wondering, to the extent to which you benefited from some of these power upgrades on the gas turbines versus what you might characterize as regular MRO work on the [install].

Jeffrey Immelt

Well, it was a positive for us. I mean if you look at the service business it was actually up slightly on our profit. So the net benefit of everything they did whether it's the part sales or the upgrades and outages in the quarter, gave them a little lift. And so I think it's a positive we're up on our profit even with the revenue been down a little bit. So services versus equipment was a benefit certainly in the energy segment.

Nigel Coe - Morgan Stanley

And then a quick one on the GE Capital dividends. $1.9 billion in the quarter, $6.5 billion for the full year. How do you expect that to phase over the balance of the year?

Jeffrey Immelt

Yeah, we have got that (inaudible) even there over the third quarter and fourth quarter. So $1.5 billion in third and $1.5 billion in the fourth is the assumption today.

Nigel Coe - Morgan Stanley

Great, thanks a lot.

Keith Sherin

That’s for the specials.

Jeffrey Immelt

(Inaudible). Yeah.

Keith Sherin

And then 30% of (inaudible).

Operator

Your next question comes from the line of Shannon O'Callaghan representing Nomura. Please proceed.

Shannon O'Callaghan - Nomura

I just want to update on sort of gas turbine order expectations for the year. I think you've been talking about 120, 130, we're only at 32 here in the first half. Is that still the target and if it is, what are the things, sort of where do those orders come from?

Jeffrey Immelt

Shannon, my hunch is that the overall market is not going to be quite as strong as we had initially expected. So my hunch is that the order for the year will be between something like 100 and 115, in that range. And again, so they come in buckets. I'd say there is still a fair amount of activity in the Middle East, China and Asia aren't bad. We expect U.S. to be better this year than last year but at a small level. Europe pretty sluggish, Africa okay. But they tend to come in buckets. But my hunch is that's where the orders will come in.

Shannon O'Callaghan - Nomura

You mean you have pretty good visibility into those, are there some lumpy things kind of in the ways to get there?

Jeffrey Immelt

Yeah, we do. I think we have a pretty formal process we go through on booking orders and stuff like that. So, we kind of see, what I would say is pretty good visibility there.

Shannon O'Callaghan - Nomura

And then just on these, in the U.S. on the advanced gas path upgrades, I know you had talked about, I think they got pushed out of 1Q and you're expecting them in 2Q. Was all of that kind of recognized in 2Q or is there more of this to come in the second half, how do those work?

Jeffrey Immelt

There's still more to come in the second half, and again it's always between when we book the order and the revenue but I think that we've got something like [50], Keith, for the year?

Keith Sherin

We have a goal of 50 for the year. We did 2 in the first quarter, 12 in the second and we've got 8 in the backlog and we've got a number that are working. So I think there is a lot of progress. What we talked about in the second quarter we had three of them that we were working, slipped in two of those actually booked in the second quarter in addition to another ten. So I think the team has made a lot of progress there. And their position probably for the first quarter of '14 outages as you look at where they go, so it will be in the second half, later in the second half of the year we think, Shannon.

Operator

Your next question comes from the line of Julian Mitchell representing Credit Suisse. Please proceed.

Julian Mitchell - Credit Suisse

I just had a question around the simplification on the cost cutting. You had sort of $474 million of cost cutting savings in Q2. It looks like there wasn't much back in Q1 at all. Back in Q1 you talked about the majority of the cost savings coming in the second half. So I just want to square where -- you’ve got $500 million of savings already in the first half. You talked before about $1 billion or so. Is that $1 billion number for the year a lot higher now? Because I guess you should -- again for the Q1 you should be getting most of the cost saving benefit in the second half?

Jeffrey Bornstein

We had actually $200 million in the first quarter, Julian. So that's how you get to 468 or whatever at the half. We're targeting at least $1 billion and we have an intense focus in this company around simplification. There is a regular rhythm. Everybody's engaged. We’re reducing P&L's. We’re putting things in centers of excellence. And we're going to look at more restructuring projects as we go into the second half year here. If we have good returning projects we’re going to continue to evaluate those.

Jeffrey Immelt

Good momentum. I’d be disappointed if it wasn't above $1 billion and we’ve got a good backlog of projects.

Julian Mitchell - Credit Suisse

And then within the services overall, just total company the orders were much better in Q2 than Q1. You talked about revenues being obviously at the bottom end of the 2 to 6 range. Is that solely on equipment? How is your view on the services revenue outlook for the year changed, particularly given the big improvement in orders sequentially?

Jeffrey Immelt

The goal for services is still around 5% for the year and that's the focus we have on it. So I think the mix is still mainly equipment driven on the total revenue.

Julian Mitchell - Credit Suisse

And then lastly just any color you could provide on Europe. You had mentioned right at the beginning that it felt like a better quarter. Obviously power is still bad, just what you're seeing generally from your customers there?

Keith Sherin

We had obviously a big improvement in Europe in the orders. Remember the first quarter is down 17. The second quarter we’re up 2. And it was mixed. We talk about power being tough, but the positives for oil and gas was very strong. Oil and gas orders were up 37% in the quarter. A lot of those were up in the Nordic. We have a great position in oil and gas in the North Sea. Aviation was up 26%. It was a mix of both equipment orders as well as service orders. We've seen a rebound of services in the Europe poll. Services were up about 15% for aviation. And healthcare had a nice turnaround. The Power & Water was down, but some encouraging signs in some of the other industrial businesses here, overall 2 versus 17 is a significant improvement obviously for us.

Jeffrey Immelt

Yes, just another nuance on Keith's. I'd say the most short cycle business we have in Europe is healthcare. And they had the first positive orders I'd say in a couple of years probably, in three years. So that's a decent but I'd echo what Keith said earlier on the Power gen usage side, it's still pretty weak in Europe. But it just seems to have net-net and the GE world anyhow, stabilized in Q2.

Operator

Your next question comes from the line of Andrew Obin, representing Bank of America. Please proceed.

Andrew Obin - Bank of America Merrill Lynch

Just a question on rising interest rates impact to GECC. How should we think about the second half given the funding mechanism and when do you think we'll see impact, if any?

Jeffrey Bornstein

Andrew, I'd say first of all we've issued about $28 billion debt year-to-date in addition to $1 billion preferred we talked about. So $29 billion total against the total year plan of $30 billion to $35 billion. So, most of our borrowing in the year is done. Fortunately, we're able to get out a little ahead of what's happened to benchmark rates in the last couple of months. Long-term generally higher interest rates have historically been good for GE Capital as well as most banks. Margins tend to expand, spreads and to expand vis-à-vis benchmark rate. So I would say generally I think on a longer term trend basis, higher rates are better for the business. I think from a liability perspective we're in great shape.

We run a match funded book. So our short term change in interest rates really shouldn't impact us much, because our variable assets are matched with variable debt and our fixed assets with fixed debt. So we should be in pretty good shape.

Andrew Obin - Bank of America Merrill Lynch

And just a question on healthcare, just surprised how strong equipment orders were in North America in the quarter. And at the same point CMS released 2014 proposed Medicare hospital outpatient payment regulations and those seem pretty bleak. How should we think about, a, the positive surprise in healthcare this quarter, how sustainable it is and where do you think the business is going given where the regulations are going.

Jeffrey Immelt

I'd say, look, I think our product line is pretty good right now and our positioning is pretty good. We're not counting on the U.S. market in healthcare to be super robust. And look, I think on the outpatient side there has been pressure on reimbursements for a long time. So, we're pretty cognizant of where it goes there. But I would say the U.S. market feels like it's growing flattish to maybe up a couple of points and I don't see that changing that much.

Andrew Obin - Bank of America Merrill Lynch

So, this quarter for you it's market share gain, you think?

Jeffrey Immelt

You never know until you see the NEMA data, but it seems like a better run rate for us this quarter and then we'll see when we get the market data. It's usually a lag of a couple of weeks. But I think -- and then outside U.S., the growth markets were up 10%, and that's a decent profile for the healthcare guys.

Operator

Your next question comes from the line of Steve Tusa representing JPMorgan. Please proceed.

Steve Tusa - JPMorgan

The orders price in Power & Water was 1.5%, the industry seems like it's obviously in relatively tough shape. Can you just walk through what drove that?

Keith Sherin

Well, I went through some of the pieces, if you looked at it. For equipment, thermal was down 5.5 so that's more in line with what you're seeing in the softness in the thermal market. But the renewables was up 12%. So, I think those were the two biggest pieces. Distributed power is about flat.

Steve Tusa - JPMorgan

What's driving that renewables dynamic? And I guess just pricing generally, are you with obviously volumes down across your business, maybe Jeff you can, just from a macro perspective, but pricing holding in there. Is this -- you're kind of making a conscious choice to kind of walk away from some business? Does it really, kind of not matter what the price is? It's more about the level of activities that's out there and that's just more of a macro question I guess.

Keith Sherin

Well, in the wind business we've got tremendous new product introductions and we're delivering value to our customers. So I think that's the biggest piece of the thermal, rather renewable price index performance for us in 2013.

Jeffrey Immelt

Steve, it's really kind of product-by-product. I see our service pricing is still pretty good and that shows up in service margins. Your reference on the power-gen market, it's a tough market. So you're seeing pressure there. Aviation, the pricing has been really pretty good, same ways locomotives behind product performance. So it's kind of a mix business-by-business. But I think on the input cost side we're not seeing any inflation really and so we see a favorable trade, let's say, in the short-term between our ability to sustain decent pricing in our market versus incoming inflation.

Steve Tusa - JPMorgan

Okay. And then just one last question on the Power & Water services stuff. Clearly good news that some of these upgrades and service work is coming through. That's just kind of like the delayed reaction to the significant increase in gas utilization last year. And if that is the case, I mean is this something you have line of sight on into '14 or is this kind of a pent-up demand being released this year as they kind of switch back to coal perhaps, and then you've got a little bit of tougher comp next year. How do we think about that?

Jeffrey Immelt

My sense, Steve, is that the power gen service piece ought to be pretty stable between '13 and '14. We have got a decent backlog of these advanced gas paths. We do have some turnarounds next year that are going to be helpful. So I view this as the ability to kind of have stable growth in the power gen service side.

Keith Sherin

It's really good economics for the customer.

Jeffrey Bornstein

Yes. We're developing additional new product upgrades for them that give them better efficiency in operating performance and we can demonstrate those economics, right. It's not really related to just whether they run a little more from a cost of gas perspective. It's really about over the long term what's the value of that asset for them.

Steve Tusa - JPMorgan

How many did you do last year?

Keith Sherin

This is a new product introduction. So there have upgrades through the periods, but this is a specific area.

Jeffrey Immelt

Most significant.

Operator

Your next question comes from the line of Jason Filman representing UBS. Please proceed.

Jason Filman - UBS

At healthcare, you called you called out the translation impact of the Yen on the healthcare business in Japan. More broadly, have you seen any competitive implications of the move in the Yen either in healthcare, energy or any of the other businesses?

Jeffrey Immelt

We really haven't -- a lot of things we do in aviation, stuff like that are dollar trades anyhow, but we haven't seen the Japanese companies becoming more competitive if that's what you mean. One of the advantages we have is we also make things in Japan and have a supply chain in Japan. So we're naturally hedged as these things go on from a cost position standpoint.

Jason Filman - UBS

Also in healthcare, healthcare seems to be the segment where pricing has been the most stubborn and I certainly understand particularly in North America and Europe it's been a challenging market, but what do you see as needing to change before that improves? Is that something that's possible anytime in the near to medium term?

Jeffrey Immelt

It's just a historical thing. The healthcare business is a little bit on the electronics cost curve. Half of it is physics and half of it is electronics. And you have a fairly rapid new product standpoint. So healthcare grows at CM rate, even when we show --- the way we look at price, it shows some erosion, but that's usually offset by sourcing and by margin on new products that are replacing the old ones. So it's a unique character on our portfolio.

Operator

There are no further questions at this time. Mr. Schauenberg, do you have any additional remarks?

Trevor Schauenberg

Yes, I'll just wrap quickly. Thank you everyone for joining the call today. The replay of today's webcast will be available this afternoon on our website. We'll be distributing our quarterly supplemental data for GE Capital as we always do soon, today. Our third quarter 2013 earnings webcast will be held on Friday October 18th. As always we'll be available to take your questions today. Thank you everyone.

Operator

This concludes your conference call. Thank you for participation today. You may now disconnect and have a great day.