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GE - Q4 2012 General Electric Co. Earnings Conference Call

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OVERVIEW:

GE reported 4Q12 continuing operations revenues of $39.3b, operating earnings of $4.7b and operating EPS of $0.44.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the General Electric fourth-quarter 2012 earnings conference call. At this time, all participants are in listen-only mode. My name is Deanna 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 - ***General Electric Company - VP of Corporate and Investor Communications***

Thank you, Deanna. Good morning and welcome, everyone. We are pleased to host today's fourth-quarter and total year 2012 earnings webcast. Regarding the materials for this webcast, we issued the press release earlier this morning and the presentation slides are available via the webcast. The slides are available 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 our Chairman and CEO, Jeff Immelt, and our Vice Chairman and CFO, Keith Sherin, and we are excited to get started. So we will turn it over to our Chairman and CEO, Jeff Immelt.

Jeff Immelt - ***General Electric Company - Chairman and CEO***

Trevor, thanks. Good morning, everybody. Look, the GE made a very strong quarter. We saw real strength in the emerging markets and the developed regions stabilized. Orders grew by 7% excluding foreign exchange Wind and organic growth was 4% in the quarter and 8% for the year.

Earnings were strong with operating EPS up 13%. Industrial earnings were up 12% with all segments growing for the second straight quarter. Capital had another good quarter and for the year, industrial earnings were up 10% and capital up 12%.

We delivered on our margin commitments, which grew by 120 basis points in the quarter and 30 basis points for the year. Industrial CFOA was also very strong in the quarter. And for the year, CFOA grew by 48% to $17.8 billion.

We returned substantial cash to investors in 2012 through dividends and buyback and in the fourth quarter we announced a 12% increase in our dividend and an expansion of our buyback program. Finally in December, we announced a strategic acquisition in our aviation business called Avio.

So this was a very successful quarter for GE that strengthened as the quarter continued and builds momentum for the future.

Orders grew by 2% in the quarter. This is up 7% excluding again the impact of foreign exchange and Wind. We had a solid order growth in five of six businesses. Order pricing grew by 0.5% in the quarter. Equipment book to bill ratio was 1.2 and we ended the year with a record high backlog of $210 billion.

Many of our businesses had great quarters. For instance, healthcare equipment orders grew by 7%. MR was up 12%, CT up 23%, and ultrasound up 11%. And importantly, growth market orders expanded by 12%.

Our growth initiatives continued to deliver. Growth regions expanded by 9% in the quarter and 11% for the year. Six of nine regions grew by double digits including Russia, Australia, Latin America, China, Africa, and ASEAN. For the year, China grew by 19%. Service has had another good quarter in revenue backlog and margins. PowerGen services had a very strong quarter. Service backlog grew to a record of $157 billion.

We continued to launch new products and service offerings. We're winning with our aviation product lineup, which is giving us high share of commercial engines. Oil and gas had record orders and backlog. Our subsea orders almost doubled versus last year and Distributed Power grew by 19% for the year.

In November, we announced nine new service offerings for the industrial Internet with 20 more in the pipeline, so we continue to deliver in volatile markets.

GE had a great margin performance in the quarter, margins grew by 120 basis in the quarter and 30 basis points for the year. Every business grew margins in the quarter and our performance really was driven by value gap expansion of $330 million, service margins which grew by 190 basis points, and simplification. For the year, SG&A as a percentage of revenue was down 100 basis points and we achieved these results in spite of the fact that foreign exchange created a headwind for the year.

We enter 2013 with substantial momentum. We expect to hit 70 basis points of improvement in 2013. This is based on very positive value gap structural cost and service margins, which are really the run rate, and mix in 2013 should not be a drag. So really a good job by the GE team.

GE had a very strong performance on cash as well for the year. We hit $17.8 billion, up 48%. Industrial CFOA in the quarter was $6.2 billion, up 12%. We had good performance on working capital even while we continued to invest in growth. We end the year with a cash balance of $15.5 billion and consolidated cash of $77 billion.

Our strong industrial CFOA performance plus capital dividends is supporting our plan for balanced capital allocation, so we returned $12.4 billion to investors through dividend buyback and we expect this to continue in the future.

We announced the acquisition of Avio in December for $4.3 billion. As you know, we had a significant backlog of engines and shop visits. We have invested in capability, materials, and capacity to improve our new engine margins. Recently you have seen several partnership announcements from GE Aviation in our supply chain.

In Avio, we are acquiring an existing position in engine development. They bring complementary technologies to GE. We think there is an opportunity to expand this technology beyond aviation and there are substantial synergies, about $200 million or more and relatively low execution risk. So at 8.3 times EBITDA, we believe this will generate a good return for our investors and we expect to close in the second half of 2013 after regulatory approvals.

So now I'm going to turn it back over to Keith to talk about Company operations.

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

Thank you, Jeff. I'm going to start with a fourth-quarter summary. Go to the income statement, we had in operations revenues of $39.3 billion. That's reported up 4%; ex FX, revenues were up 5%. Industrial sales of $27.3 billion are up 2%, up 3% ex FX again. Capital revenues of $11.8 billion were up 2% and operating earnings of $4.7 billion were up 13%. Operating earnings per share of $0.44 were up 13% and if you look, continuing EPS here includes the impact of the nonoperating pension and net earnings per share includes the impact of discontinued operations, which I'm going to cover on the next page.

As Jeff said, year-to-date cash at $17.8 billion was up 48% including the dividends from GE Capital, a great year on cash. For taxes, the GE rate, 21% for the quarter, that's up about 6 points from last year mostly due to higher pretax income. In the fourth quarter, GE rates consistent with our rate through the third quarter and the low 20s rate we forecast all through the year. So right now we would forecast a similar GE tax rate for 2013.

The 6% GE Capital rate is consistent with the mid single-digit rate we forecast in the third quarter. As we mentioned in December, our plan for next year for GE Capital includes less tax benefits so right now I would forecast a rate of approximately 10% for 2013 for GECC.

On the right side you can see the segment results. Total Industrial segment profits up 12%. It's great to have all seven of the Industrial segments delivering positive earnings growth and these results also contributed to Industrial segment profit of $15.5 billion, up 10% for the total year.

GE Capital also had a strong quarter. Earnings were up 9%. If you include the impact of the preferred dividends, GE Capital represents 36% of total Company earnings in the fourth quarter. Overall, a strong segment growth quarter and I'm going to cover each of the segments in more detail in a minute.

Before I get to the businesses though, I will start with other items in the quarter, fourth quarter. First on the one-time benefits, we had $0.01 of after-tax gains from two non-core dispositions that occurred in the fourth quarter in the segments. We sold the Thomas Medical business in Healthccare. That business sells disposable medical devices for cardiology and we realized a $24 million after tax gain.

And in Aviation, we sold the Smiths business in California, in Duarte, which makes thrust reverser actuation equipment and we realized a $67 million after tax gain. So in total, $0.01 on the benefits.

We also had $0.02 of after-tax restructuring and other charges in the quarter. These charges related principally to continued cost structure improvements at GE Capital, at Healthcare, Power & Water, and Energy Management as well as some business development costs.

On the bottom of the page, we had $305 million of charges in discontinued operations. We booked $286 million of additional reserves on gray zone this quarter. While we watched the claims decline 28% in the third quarter, the claims in the fourth quarter were above our model expectations. So we revised our assumptions this quarter. Right now we are reflecting a further slowing in the overall claims reduction rate than we had previously modeled and that brought our year-end reserve to $700 million.

So we will continue to update you as events and facts change on the gray zone. Right now I will switch to the business results.

First I'll start with Power & Water. As you know, this is the first quarter we are reporting the three separate businesses, so Power & Water. The business continued to be impacted by Wind; however, the overall execution delivered positive operating results. Orders of $7.2 billion were down 16%, down 6% ex Wind. Equipment orders of $3.5 billion were down 26% driven by Thermal and Renewables.

The Thermal orders of $974 million were down 49% as we had orders for 26 gas turbines versus 50 last year and we also had orders for two steam turbines versus 20 last year. In addition, there were $500 million of Thermal order slips that went out of the fourth quarter into 2013. For the total year, we had orders for 108 gas turbines versus 134 in 2011 and the total year Thermal orders in dollars were down about 7%. Total Thermal order pricing was up 1% in the fourth quarter and up 0.5% for the total year.

Our Renewables, fourth quarter Renewable orders of $987 million were down 50%. We had orders for 412 wind turbines versus 1023 last year. Renewable order pricing was positive 0.4% and service orders of $3.6 billion were down 3%.

PowerGen Services was up 7% and you will see that is important in terms of profit but that was offset by nuclear, which was down 15%, in line with lower activity in Japan.

For revenues of $7.7 billion, they were a 2%. That is driven by services. Equipment revenues of $3.9 billion were down 2% driven by Thermal down 14% partially offset by Wind up 10%.

We shipped 32 gas turbines versus 33 last year and we shipped 722 wind turbines versus 688 last year. Service revenues of $3.7 billion were up 5% driven by PowerGen services, which was up 8% and PowerGen services op profit was up double-digit in the quarter.

Total segment profit of $1.7 billion was up 5% as the benefits of the higher services and lower product costs more than offset lower prices and in the quarter, margins expanded by 80 basis points.

On the right side, Oil & Gas had another strong quarter, closed out a great year. Orders of $5.6 billion were up 18%. Equipment orders of $3.1 billion were up 31% driven by the strong subsea systems and drilling and surface orders. Year-to-date equipment orders were up 21%. Service orders of $2.4 billion were up 4% on again strong subsea systems orders.

Total orders pricing was up 1.3%. We finished the year with a backlog of over $14.8 billion, up $2.6 billion from last year and our seventh consecutive quarter of positive orders pricing.

Revenue of $4.5 billion was up 11% driven by equipment. Equipment revenues of $2.4 billion were up 27% driven by subsea systems, up 34%, measurement and controls were up 63%, turbo machinery was up 16%, and service revenue of $2.1 billion was down 2%.

Segment profit of $649 million was up 14%, which was driven by the strong volume and positive pricing and our acquisitions continue to perform. For the year, they were up significantly and above pro forma, so overall another strong growth quarter for Oil & Gas.

Next is Aviation. The Aviation team had another solid quarter in fourth quarter. Orders of $7.4 billion were up 8%. The commercial engine orders of $3.6 billion were up 9% driven by CFM LEAP and GEnx. Military engine orders of $632 million were up 57% driven by US orders for F1-14 and T700 as well as foreign military orders for F1-10 engines.

We ended the quarter with a backlog of $22.9 billion, up 6% versus the third quarter. Service orders in the quarter of $2.7 billion were up 1%. Commercial services were flat. The fourth-quarter spares order rate was $22.3 million, which was flat with last year. As you know, we did see spares orders stabilize in the fourth quarter and as you know, spares were down double-digit all year long, so flat was an improvement and the total year rate was $22 million, down 11% from 2011. Total orders pricing was up 2.3% for the business.

Revenue in the quarter $5.5 billion was up 11%. That is driven by equipment, which was up 19%, services were up 3%. We shipped 589 commercial engines in the fourth quarter, which was up 71 engines from last year, and we shipped 41 GEnx units in the fourth quarter.

Commercial service revenues of $1.8 billion were flat in the quarter and segment profit of $1,039 million was up 22%. It's up 8% ex the deal that I covered on the other items page. So ex the deal, segment profit growth was driven by positive price, lower base cost, partially offset by negative engine mix.

On the right side, Healthcare, we had good orders quarter. Fourth quarter for Healthcare orders of $5.4 billion were up 4%. Equipment orders of $3.4 billion were up 7%. Developed markets were flat but there was a big shift here. The US was up 8%. Europe was down 8%. Emerging markets were up 24%, continued strength in the business. The Middle East was up over 100%. Russia was up 29%, China up 22%, Latin America up 21%, partially offset by India down 12%.

By modality, CT was up 23%, MR was up 12%, ultrasound was up 11%, molecular imaging was down 8%, life sciences was up 5%, and MDx was down 3%.

Service orders in the quarter of $2.1 billion were down 1% and total orders price was down 1.8% for the business. Revenue of $5.2 billion was flat, driven by the growth markets up 13% offset by the developed markets down 3%. And segment profit of $1,021 million was up 7% as the benefits of cost productivity and other income more than offset the negative price and foreign exchange.

Organic segment profit growth for the business -- if you look in the fourth quarter, it was up 1% and for the year it was up 3%.

Next is Transportation. Transportation team delivered another solid quarter despite a slowing top line. Orders of $1.3 billion were up 7%. Equipment orders of $600 million were up 20% driven by the strong international locomotive orders. We had orders for 100 locomotives versus 74 last year. We had strong mining orders and mining -- and mining is down a little bit actually, $151 million was down 7% and service orders of $720 million were down 3% as fewer signaling orders offset strong locomotive service orders, which were up 14%.

Revenues were down 7% on as expected lower locomotive shipments. We had 117 locomotives this year versus 258 last year, just the way we planned the year. And this was partially offset by the stronger service, which was up 26%, and mining revenues which were up 57%. Op profit was up 12% on higher service and positive value gap.

This is the first quarter we are presenting Energy Management separately. The businesses here are Converteam, which is now Power Conversion, Digital Energy, Industrial Solutions, and Intelligent Platforms. Orders of $2.2 billion were up 12%, driven by the strong growth in power conversion, oil and gas marine orders. Revenues of $1.9 billion were down 1% as lower intelligent platform sales offset the growth in power conversion, which was up 6%. Segment profit of $64 million was up 36% with 90 basis points of margin expansion driven by a positive value gap more than offsetting lower volume.

On the bottom, Home & Business Solutions had a very positive quarter with intelligent platforms now reported in Energy Management. This segment is just appliances and lighting going forward. Revenues of $2.1 billion were up 2%, driven by appliances. We did see some strength in the contract channel from new housing starts and segment profit of $115 million was more than double last year's fourth quarter, driven by higher pricing and lower product costs.

I'm going to wrap up with GE Capital, Mike Neal and the Capital team delivered another solid quarter, revenues of $11.8 billion were up 2%. Higher core income, strong retail revenues, real estate sales more than offset the impact of lower assets. We ended the year with $419 billion of ending net investment. That's down $26 billion from 2011 driven by the shrinkage of non-core platforms and over $20 billion lower than our $440 billion goal that we set back in 2009.

GE Capital earned $1.8 billion in net income, which was up 9%. That's driven by great results in real estate, growth in consumer, and that more than offset the $200 million lower income from lower assets.

On the right side, asset quality metrics showed continued improvement across the board driven largely by improved portfolio performance. Our net interest margin was 4.9%, up 49 basis points and we had strong volume of $54 billion in the quarter, up 11% from last year. Commercial volume was up 18%. Consumer volume was up 8% and new business volume averaged 3% returns.

One other point that is not on the page in the supplemental deck that we posted this morning you're going to see reserves at GE Capital decline by $400 million versus the prior quarter. This decline is driven by a modification to our write off policy in line with regulatory guidance where we now write off loans against specific reserves that we are carrying for more than 12 months. So the change had primarily impacted real estate and CLL and has no impact on our income statement and the net impact on the balance sheet is zero but we had higher write-offs and lower reserves at the end of the quarter because of that, about $400 million.

So if I go highlights by business here, first I will start with CLL. Net income of $544 million was down 30% driven by lower assets and prior year dispositions and also the non-repeat of last year's IRS settlement. In the Americas, net income of $455 million was down 20%. That's driven by the non-repeat of the tax item in the fourth quarter as well as lower assets.

We did see strong volume growth in the Americas. In the fourth quarter, volume was up 31% at 2.4% returns and in Europe, European CLL earned $83 million and was flat with last year.

Our Consumer business had another positive earnings quarter. We ended the year with assets of $139 billion flat with last year. Net income of $755 million was up 22%. That's driven by growth across the board in US retail in Europe and in Asia. US retail finance earned $477 million, which was up 3%. That's driven by higher assets and better margins partially offset by higher credit costs as we continued our reserve segmentation that we talked about in the fourth quarter. U.S. retail finance volume was up 9% over last year and core Europe earned $154 million in the quarter.

For real estate, commercial real estate had another quarter with significant improvements over last year, assets of $46 billion were down $15 billion. That's down 24% from last year. It's down $9 billion or 16% from the end of Q3. So we do a good job of reducing our exposure to real estate. The business earned $309 million in net income which was $460 million better than last year. That's driven by lower losses and impairments, higher tax benefits, higher gains.

During the quarter, we sold 282 properties for $2.6 billion realizing $136 million in after-tax gains and we also closed on the sale of the business properties book to EverBank resulting in $82 million of gains and $5.4 billion less real estate. Our unrealized loss on the equity portfolio was down to $1.1 billion at the end of the year and the outlook is that real estate is going to continue to deliver improved performance in 2013.

Next is GECAS. They had a solid fourth quarter, net income of $343 million was up 9%. That's driven by higher gains and lower losses on impairments. Asset quality remains strong. We ended the year with two aircraft on the ground. And finally, Energy Financial Services also had a solid quarter with earnings of $107 million, down 3%. So overall a great year, $6.4 billion of dividends paid back to the parent.

And with that, let me turn it back to Jeff.

Jeff Immelt - ***General Electric Company - Chairman and CEO***

Great, Keith. Thanks. Just to wrap up on 2012 investor commitments, one last time on 2012, we really hit all the major goals that we set out with you a year ago. We targeted strong industrial growth and we hit 12% in the fourth quarter and 10% for the year. We said we would grow margins and we hit 120 basis points in the fourth quarter, 30 basis points for 2012 and we are on track for 70 basis points in 2013.

We said we wanted to get cash out of GE Capital and we received a $6.4 billion dividend to the parent. We said we would make GE Capital smaller and our ENI ended the year at $419 billion, down 6% even while we grew income by 12%. And we said capital allocation would be disciplined and balanced and we returned more than $12 billion in dividends and buyback and announced the $4.3 billion Avio acquisition.

So 2012 was the year where we really hit all of our financial commitments to investors.

Looking forward in 2013, there is no change to our 2013 operating framework that we talked about in December. If anything, we start the year with a higher backlog and more cash. Our commitments are similar to 2012. We plan to achieve double-digit industrial earnings growth. We plan to receive a substantial dividend from GE Capital. We plan to grow margins while driving solid organic growth and our fourth quarter order will support this growth, and we plan to return substantial cash to investors through dividend and buyback.

So our fourth-quarter performance gives us confidence for 2013. I think the GE team has done a great job of execution and Trevor, now back to you for some questions.

Trevor Schauenberg - ***General Electric Company - VP of Corporate and Investor Communications***

Great. Thanks, Jeff and Keith. Deanna, let's open up the phone lines for questions.

QUESTION AND ANSWER

Operator

(Operator Instructions). Scott Davis, Barclays.

Scott Davis - ***Barclays Capital - Analyst***

Good morning, guys. It looks like most of the full-year margin expansion came from value gap. Can you talk more specifically about 4Q, the 120 basis points is a pretty big number, if there's a way to think of that in terms of value gap versus maybe mix or cost.

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

Sure, I will give you both actually because I think it's helpful to look at the pieces. You said it, in the fourth quarter, value gap was big. It was 80 basis points of the growth came from value gap. We had very strong pricing. We saw a material deflation and you can see that the changes in order pricing are flowing through into revenue.

We had -- equipment service mix was a drag. As you know that has been a drag all year long. It was 50 basis points, the same as what we had for the total year as we had higher revenues on equipment growth and on services. And also you know the Wind story. Higher Wind revenues to lower margins has been a drag all year long.

We offset that with two things. One, we did have the dispositions. That was about 60 basis points in the quarter and we had strong productivity, which was 30 basis points in the quarter as we offset the impact of the negative mix. So overall, 120 basis points.

And for the year, it's really a similar story. Value gap was 20 basis points so that 30 basis points growth. We had a real drag on mix and other. That was in total 60 basis points but we offset that with strong productivity. A lot of that is simplification. Our SG&A as a percent of revenue went down a full point. We have done a good job with costs and we've got great programs in place that will help us as we go forward into 2013, as you know.

And the gains in total for the total year were about 7 basis points on the impact for the margins. So a pretty good performance and the strength really value gap and productivity driving margin improvement both in the quarter and for the total year.

Scott Davis - ***Barclays Capital - Analyst***

Okay. Helpful, Keith. Thanks. Kind of stepping back to it a little bit of a bigger picture question, the Avio deal seemed pretty interesting for many reasons. But when you think about taking a step backwards and -- is this part of a bigger trend and an opportunity to start to buy in some of the supply partners that you have that -- I mean, there is multiple positives that can come out of that I guess and risk reduction and controlling intellectual property and things like that. Is there other things out there that you can do that are similar to this type of transaction?

Jeff Immelt - ***General Electric Company - Chairman and CEO***

You know, Scott, we did a couple other joint ventures that you probably saw last year that enhanced our position and controls and fuel nozzles and additive manufacturing and things like that. We think Avio made a ton of sense just given the amount of GE content and things like that. I would say we don't have a bunch more on the drawing board but what I would say is we've got an incredible backlog and skyline of aircraft engines coming at us for the next five to 10 years and we believe that actually being able to drive real productivity in the supply chain and innovation in the supply chain is -- will likely be one of the real margin enhancers as we look at the Aviation business in the next three, four, five, 10 years.

So it is part of a bigger productivity play. I don't think there's necessarily things like Avio on the drawing board per se but we continue to look at productive manufacturing of a well identified backlog as being a major source of margin benefit for our investors going forward.

Scott Davis - ***Barclays Capital - Analyst***

Helpful. Thanks, Jeff. Thanks, guys. I will pass it on.

Operator

Stephen Tusa, JPMorgan.

Steve Tusa - ***JPMorgan - Analyst***

Good morning. The China growth of close to 20% remains pretty strong. Can you maybe talk about what was above and below that average and how you see that playing out in 2013? You guys have skated through the weakness there pretty nicely.

Jeff Immelt - ***General Electric Company - Chairman and CEO***

So, Steve, I would say we definitely saw China strengthen again at the end of the year. The big drivers of China continue to be Healthcare and Aviation. We believe that the China momentum will likely continue into 2013. So I don't know, Keith, do you want to --?

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

Some V's -- I will give you for the quarter Power & Water had a big quarter. They were up over 30%. Healthcare had a big quarter, up 15%; for the year, they were up over 20%. Aviation continues to be very important to us for the year, up 18%, and there were some orders that we had pushed out of the third quarter still pushed out of the fourth quarter. So we expect some more orders in Aviation in China in the first quarter. So those three are really the strength and we continue to see investments by the government in those industries and we are benefiting from the move to gas in China a bit, the great emphasis on Healthcare and certainly on Transportation with the Aviation position we have.

Jeff Immelt - ***General Electric Company - Chairman and CEO***

(multiple speakers) as well China grows, you see more activity in Africa and Brazil and places like that as well. So it's -- it has an knock on effect that is also positive.

Steve Tusa - ***JPMorgan - Analyst***

How big is your China business going to be at year end now?

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

The revenue for the year was just a little under $6 billion in 2012.

Steve Tusa - ***JPMorgan - Analyst***

Got you, okay. Great. Then one last question just on margins, I guess the value gap obviously is ramping here. That doesn't seem like that's lumpy, so you had your biggest quarter obviously in the fourth quarter, which means you should probably start the year with a pretty decent value gap in the first half. And then maybe if you'd talk about how those other swing factors like mix, the other things you talked about in the bridge progress as you moved through first half '13 if there's anything lumpy that you need to call out that may impact the 70 basis points first half to second half type of thing?

Jeff Immelt - ***General Electric Company - Chairman and CEO***

You know, Steve, again as I look at margins I think value gap is pretty well dialed in. Structural costs, what Keith talked about SG&A as a percentage of revenue, that should continue to get better. Those two aren't necessarily lumpy. Service margins aren't really lumpy. We continue to get good progress there. My view is Wind will be lumpy as you think about how it plays through the balance of 2013. And the one that we don't really control so much is how mix goes through.

So I would say a lot of the levers should continue with pretty good progress and the one that we will manage this year as the year goes on was just the impact of -- there will be a $0.03 headwind in Wind. We don't see that necessarily changing and that's something to can play through. But we feel confident in the 70 basis points for the year.

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

We are not really giving quarterly margin guidance, but as Jeff said, for the year based on those factors, we feel pretty confident we have an internal plan that is above the 70. We don't have any gains that are in the plan to get to that 70 and we have got some good momentum as we come out of the fourth quarter on the margin improvement.

Steve Tusa - ***JPMorgan - Analyst***

Great, thanks a lot.

Operator

Jeff Sprague, Vertical Research Partners.

Jeff Sprague - ***Vertical Research Partners - Analyst***

Thank you. Good morning, everyone. Just looking for a little more color around orders. Just first at a high-level, you are calling the quarter flat at 11.8 but I see 12.5 last year in the quarter. What's going on there?

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

I think it's the energy recast and eliminations.

Jeff Sprague - ***Vertical Research Partners - Analyst***

Yes, and I'm talking about service in particular, actually.

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

Yes, that is what we have. We have recast from some of the services went into equipment I believe. (multiple speakers) and some came up to Corporate. We'll get you the split. It's a little bit of a decoder ring. I don't have the details with me, Jeff.

Jeff Sprague - ***Vertical Research Partners - Analyst***

Okay, then just on the power-related stuff, so Power & Water in aggregate, price was down 20 bps but I think you said, Keith, just trying to keep up with your Thermal was up 1. Is that Thermal number just equipment or is that service and can you provide any color on service pricing in the business?

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

Yes, the number I gave was the total business, Thermal and PGS up 1 in the quarter. If you look at -- I don't have a separate breakout for services for the fourth quarter. I have Thermal in total. But if you look, all year long in Thermal it was positive in the first and second quarter; it was a little negative in third quarter, it was positive -- for total year it was up 0.5 point for Thermal, Equipment & Service.

Jeff Sprague - ***Vertical Research Partners - Analyst***

And then just finally flipping over to Aero, so the ADOR stabilized. Do you have visibility you think that the aftermarket has kind of found the bottom and inflecting or is it early to kind of determine that?

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

Yes, I think the way the team has talked to us about it and in the market you continue to see pretty good revenue pass through miles. Freight declines were lumpy in 2012 but recovered a little bit at the end of the year. And for us to have flat ADORs, given that there was an awful lot of working capital management in the supply chain and some mix for us with the old CF-6s on freight was a positive sign. Right now the team is forecasting a little bit of improvement off of that fourth-quarter rate in the first quarter and we are going to have to see as we go through the quarter.

It's too early in the quarter right now to know a couple weeks in but they are forecasting it will be improving over the fourth-quarter levels.

Jeff Sprague - ***Vertical Research Partners - Analyst***

Any concern about your GEnx productivity ramp with maybe things backing up at Boeing if you've got any thought on how things might play there as it relates to you?

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

Well, you know, we are going to have to see. Right now we haven't had any schedule changes from them. Actually as you know if you there a few less engine shipments, that is not a bad thing in terms of margins based on the margins on the initial GEnx shipments, so we had a great year on GEnx, Jeff. We came down the learning curve. Obviously some of the pricing that you're seeing in Aviation is coming through on GEnx.

There was an improvement on margins per units in those shipments. So I -- we don't anticipate it to be a big deal but again, we've got to see Boeing kind of work their way through the problem.

Just a little number on our engines, you know on the 1B, we've had 35,000 flight hours with 99.97 dispatch reliability and on the 2B, on the 747, and we had 310,000 flight hours with 99.94% dispatch reliability. The engine is performing very well in the fleet and the customers love it.

So we have got to work through Boeing and we are trying to help them with whatever they're working through, and we will. But so far for us, we are very pleased and our customers are very pleased with the GEnx.

Jeff Sprague - ***Vertical Research Partners - Analyst***

Great, thank you very much.

Operator

Andrew Obin, Bank of America Merrill Lynch.

Andrew Obin - ***BofA Merrill Lynch - Analyst***

Yes, good morning. A question, a broader question. Given the resolution, partial resolution of the fiscal cliff, are you seeing any improvement in sentiment from your customers in the U.S.?

Jeff Immelt - ***General Electric Company - Chairman and CEO***

I think there's certain tangible things like the production tax credit, Andrew, so that basically opens up a two-year window. So I would say on balance that's more positive, and we hear more positive comments coming out of the renewable energy sector.

Other than that, Andrew, I would not say that we are necessarily picking up, whether or not that has been liberating or not. The shorter cycle business in GE is our appliance business. We get appliance market data every week, and the industry itself was about flat in December and the industry itself was about flat through the first couple of weeks of January, so if that's helpful.

Andrew Obin - ***BofA Merrill Lynch - Analyst***

Just a question on GE Capital. Do you think these ROIs are sustainable? Are you seeing more competition reentering the space, and any more color by segment on ROIs on new business? Thank you.

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

It does vary, I think on some things. Like asset-backed lending, we've seen some more competition. But in other places we have had less competitors. Overall for CLL, to do $14.5 billion in the Americas at a 2.4% in the quarter, that's pretty good volume at a pretty good rate. So the team is being very disciplined on pricing and margin hurdles. And so far we have been able to get the volume we wanted at the return hurdles that we have set, and we expect to see that continue in 2013.

I think we saw little bit of a bubble in the fourth quarter for some of the fiscal cliff activity as people did a lot of refinancing and tried to get gains done, sales of their properties out in the quarter. But other than that, we've been pretty disciplined on pricing and we expect it to continue to be reasonably good.

Jeff, any comments on it?

Jeff Immelt - ***General Electric Company - Chairman and CEO***

All I would add is exactly what Keith said, that some of this is our own discipline about where we are going to write business, and we have been exceptionally disciplined. And I think the fact that volume was pretty good in the quarter kind of lets us get the sense that we are in the market and that our disciplines are appropriate.

Andrew Obin - ***BofA Merrill Lynch - Analyst***

On asset quality, we've seen changes to consumer. We've seen changes to CLL. Any more policy changes down the line?

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

Well, those are the two that we're working through. I think we are significantly through the consumer, as far as the segmentation. There may be a little more in the first quarter. And on the writeoffs, this was just -- there is regulatory guidance and we are complying with it. I'm not aware of any others besides those two right now.

Andrew Obin - ***BofA Merrill Lynch - Analyst***

Thank you very much.

Operator

Deane Dray, Citi Research.

Deane Dray - ***Citigroup - Analyst***

Thank you. Good morning, everyone. Sticking with GE Capital, a question on provisions. It looked like you absorbed at least $0.01 more than what we were looking for.

But now that I look at the consumer delinquencies, they are at an 18-year low so it raises the question, I know this is completely formulaic and it's out of your discretion, but when might we start seeing some releases of reserves?

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

Well, I don't anticipate that. I can tell you right now what we are basically -- I think a simple rule of thumb to look at on the consumer is you are probably going to be looking at 12 months of reserves -- of provisions for losses in that book. While we've seen delinquencies come down and you're right, we have a tremendous asset quality there, it's the best we've seen as you said. We have increased the segmentation of the portfolio to be more granular on different loss types and that's added to provisions.

You can see in the fourth quarter provisions are up. Some of that is volume and about $50 million, $60 million after tax of that is additional segmentation on the reserves to get to the 12-month kind of proxy here for loss levels.

Deane Dray - ***Citigroup - Analyst***

Great, then can you comment on the MetLife Bank integration, any changes to the business model there? And a related question is as you start increasing this alternative financing, alternative funding, you are expected to issue less commercial paper and maybe the aggregate amount of commercial paper coming down might actually give you better spreads, better financing, and maybe if you could comment on that as well.

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

Well, we are thrilled with getting that leg closed. Obviously we put it in the consumer bank. The objective here is to grow our deposits online and they give us a franchise and a capability to be able to do that. Our expectation is that we are not only going to do that in the consumer bank but we're going to migrate that over to the commercial bank and we are going to do more online deposits.

As you said, our objective is to get the CP down in the 30s this year and continue to reduce CP and we've been very successful at doing that and we will continue I think.

You look at the trade-off of costs of deposits versus CP plus the bank lines and whatever backup cash you carry, I think this can be a good trade off over time for us as we continue to diversify our funding.

Deane Dray - ***Citigroup - Analyst***

But is it too early to quantify what that -- the spreads might be?

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

Yes, I think you are not going to see that from -- CP is at 20 basis points, Deane, so you're not going to see a big number on that in 2013 for GE Capital. I think you will get a benefit from having less negative carry on the cash.

If you look at last year, we took the cash from $70 billion plus. We will have a carry around somewhere between $50 billion and $60 billion this year. That will probably be the biggest increase in sort of the financing margins.

Last year we had net maturities of $48 billion reduction GE Capital, so it was a fantastic year for Capital on a balance sheet basis to kind of lower the amount of debt and improve their future debt maturity profile. As you know, we go down to $30 million to $35 million of long-term debt issuance a year now from a significantly higher level.

So I think the capital team has done a great job. But the biggest benefit you will see will probably be on a little less negative carry on the cash.

Deane Dray - ***Citigroup - Analyst***

Great, thank you.

Operator

Steven Winoker, Sanford Bernstein.

Steven Winoker - ***Sanford C. Bernstein - Analyst***

Thanks, good morning. First, a follow-up question to an earlier one. The question was around the order report today versus a year ago in the Q4 2011 press release. You talked about moving from services to equipment. If you look at the total and I'm just trying to understand -- the total I guess a year ago was $28.6 billion in the press release and this year it's $28.5 billion and you talk about just 2% increase. So when you look at the overall level, how much is it? Or how should I understand that? What's the gap?

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

On the recast, the orders are basically flat. They're up $56 million ex Wind and FX -- 5%, sorry. They are up 5% ex Wind and FX. So the recast we put a little bit more in corporate out of the energy infrastructure recast, but I think it's insignificant.

Steven Winoker - ***Sanford C. Bernstein - Analyst***

Okay, all right, fine. Secondly on Avio, just so I understand this, they produced the gear system obviously for the GTF on the A320neo and the C-Series. I think they are pretty deeply involved in the development program and you are also calling out $200 million of synergies. Just how are you thinking about -- how does that handle -- how do you handle that going forward?

Jeff Immelt - ***General Electric Company - Chairman and CEO***

Look, there are a ton of different developmental programs inside the industry that people work on together. We do engines for Sikorsky. We buy from Goodrich and Hamilton Sundstrand so there's always I'd say a certain amount of developmental work that goes on inside the industry.

I think what was most appealing about Avio for us was really the amount of content they had of GE engines. I think getting more control over our own supply chain, building capability, more reliability, leveraging sourcing and manufacturing skills, things like that, that's really where we see Avio paying off for investors.

Steven Winoker - ***Sanford C. Bernstein - Analyst***

Okay, maybe just lastly, I guess Aviation is now up to about half of the backlog and as Boeing and Airbus orders start to decelerate at this point, is the thought that the backlog that Oil & Gas -- and -- do you see that backlog maintaining or now starting to come down as you start running it off a little bit and getting it into revenues?

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

Obviously you're right. You're going to see -- and we've talked about it the last six months but with the Aviation backlogs of three to four to five years of equipment, you are going to see lumpiness in those orders. We feel great about the position and obviously as the Airbus and Boeing air framers increase their production run rates, we're going to continue to see volume growth as you see in 2011 to 2012 and 2012 to 2013, we expect more commercial volume growth.

But I would expect the orders to be lumpy. The one offset to that is you are starting to see the LEAP Max orders come in and so that will be an offset. As you know, there's been pretty good success in the marketplace from the 737 Max.

Jeff Immelt - ***General Electric Company - Chairman and CEO***

I think it's a great question. I don't think either Keith or I ever thought we would have $210 billion of backlog in GE. But I would say in the kind of volatile environment we live in today, having that kind of visibility is actually quite a strong aspect and maybe Aviation tails off a little bit but in Oil & Gas, our orders in Oil & Gas are $0.5 billion or $1 billion at a crack, so it's easy to see how that order rate might continue at the rate it's on today and add to the backlog.

Steven Winoker - ***Sanford C. Bernstein - Analyst***

Okay. Then, Jeff, you mentioned that you still expected $0.03 impact on Wind, the tax credit extension obviously got moved through 2013, so that's not changing your thinking about the end of the year?

Jeff Immelt - ***General Electric Company - Chairman and CEO***

Really not yet. It's just -- it really opens a two-year window, so I think in aggregate over the next two years, it's going to increase the number of Wind shipments we're going to have but exactly which quarters and stuff like that is hard to predict.

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

As you know, the PTC extension is a little different this time, Steve. The units will have to be in production by the end of the year and that has yet to be defined but it's not the same as last year where they had to be actually operating. So I think it's all good for 2013 and 2014.

Steven Winoker - ***Sanford C. Bernstein - Analyst***

Okay, great. Thanks.

Operator

Shannon O'Callaghan, Nomura.

Shannon O'Callaghan - ***Nomura Securities - Analyst***

Good morning, guys. So just in terms of -- back to the orders, FX and ex Wind being up 7, at the December meeting, I think you had said up a smidge and this sounds better than a smidge. What finished stronger I guess in December than you thought at the meeting?

Jeff Immelt - ***General Electric Company - Chairman and CEO***

You know, Shannon, look I think the- there is a little bit of volatility going on out there and we always try to give you guys a range of outcomes. One of our biggest industrial businesses went from having orders down 24% in October, to having orders up 27% in December. And the total being up 7% for the quarter, so that's a big swing. So I would say, Shannon, on balance we closed the quarter very strong. I would say all the businesses had good order books as we closed the quarter, probably above even what our expectations were. I think that's good news. What that means or is it lumpy or things like that, I think it's too soon to call victory, but clearly the momentum built during the quarter.

Shannon O'Callaghan - ***Nomura Securities - Analyst***

Okay, and Healthcare was probably the biggest swing?

Jeff Immelt - ***General Electric Company - Chairman and CEO***

Yes.

Shannon O'Callaghan - ***Nomura Securities - Analyst***

Power & Water margins, you are saying ex Wind, they were up 300 bps? The Wind mix should be actually favorable from here. But that seems like an awfully high year-over-year run rate. So are there things that prevent us from continuing to track at that kind of a rate?

Jeff Immelt - ***General Electric Company - Chairman and CEO***

Well the services business had a great quarter so we really -- a lot of what we've talked about in terms of services kind of I'd say fourth quarter was fantastic and there's the mix for the business ought to be great or better for 2013. So we'll just see how the shipments work and all that stuff.

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

But you look at 2012, Wind revenue was up close to 50% and the margins are down a couple points and they're already below average for the Company. So this had a huge 20 basis point impact on the total year and the total Company and I think as you go into 2013, you're going to have a couple billion dollar less of Wind revenue so we do expect it to be a positive.

I don't know if we get the full 20 basis points and we'll have to see how the PTC impacts that but it will be a net positive versus what we certainly saw in 2012, Shannon.

Shannon O'Callaghan - ***Nomura Securities - Analyst***

Okay, then just your M&A plans have been fairly, fairly modest but if you get NBC proceeds sort of sooner than the base plan, are there enough things out there that you see opportunities to redeploy very quickly into industrial deals or would you look for something else to do with the cash?

Jeff Immelt - ***General Electric Company - Chairman and CEO***

You know, Shannon, I just don't even want to speculate on and how that plays out. We've talked about balance and discipline, capital allocation. I think that's really the way I feel. We like having a good yield. We like the fact that we returned more than $12 billion of cash to shareholders last year. We like having kind of a focused approach to acquisitions and if our world changes, we will come back and talk more about it but for right now you shouldn't assume any change.

Shannon O'Callaghan - ***Nomura Securities - Analyst***

Okay, all right, thanks a lot.

Operator

Julian Mitchell, Credit Suisse.

Julian Mitchell - ***Credit Suisse - Analyst***

Thanks a lot. So my first question is really just on the value gap. You mentioned it's not really lumpy but if I look at your mid-December presentation, you had a double plus from value gap as a margin driver in 2013. Today it's a single plus. I just wondered if that was because of something like Healthcare pricing in the quarter being worse than you thought in orders or what drove that?

Jeff Immelt - ***General Electric Company - Chairman and CEO***

I think it is still -- there's really no change in how I feel about value gap for next year. It's good, solid 330 this year. It will be better than that next year.

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

I think if you look at orders pricing overall, you look at our total orders pricing index for the Company, it's been positive all year long in 2012 in total, it was a positive 0.5 points, 50 basis points in the fourth quarter and for the total year, its positive 60 basis points. So I don't think -- I think pricing has not been a change in our view. We continue to see strong --

Jeff Immelt - ***General Electric Company - Chairman and CEO***

Julian, we think it's going to be above 12.

Julian Mitchell - ***Credit Suisse - Analyst***

Okay, got it. Secondly in mid-December, you talked about 5% services revenue growth in 2013. If I just look at the orders in services, they were down 2 year on year in Q2, down 4 year on year in Q3, flat in Q4. So are you still comfortable with that 5% services revenue growth for 13 just given that the orders have not been that strong for nine months or so?

Jeff Immelt - ***General Electric Company - Chairman and CEO***

You know, Julian, these are lumpy. The orders here are probably lumpier than others particularly with the CSAs. So I would say we have a huge backlog and then our estimate of 5% organic revenue growth in services really assumes that aviation spares has a better 2013.

So I think the combination of the fact that you've got $157 billion backlog sometimes what goes into orders are 10 or 15 years of commitments, right? So those go based on shop visits and stuff like that that we can model that makes us feel good about it and some pieces really we are expecting aviation spares to bounce back. Those two things I think really lead you to parts and service organic growth.

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

If you look, we had 4% revenue this year with aviation flat and Jeff's point is really one of the key differences what we expect in 2013 in aviation.

Julian Mitchell - ***Credit Suisse - Analyst***

Got it, thanks. Then just lastly on gas turbine shipments for 2013, I'm thinking they should be down maybe around 10% or so year on year. Does that sound about right?

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

Basically right now if you look, we had 108 orders for the year. We're forecasting somewhere around 100 gas turbines for 2013 and we will see how the market plays out, so they're going to be down versus 2012. I think the factors to think about the Thermal business itself on the equipment side is about 9% of the op profit for the Energy business.

So really the dynamic for us is going to be how did services perform? We got a big growth forecast in for services. How does distributed energy perform? We've got a nice orders performance in the quarter and we've got a good outlook for 2013.

And how they do on controlling their costs? Those are going to be really the dynamics that the energy team is going to be working their way through.

Jeff Immelt - ***General Electric Company - Chairman and CEO***

And the megawatts will be bigger. The unit mix is higher on that.

Julian Mitchell - ***Credit Suisse - Analyst***

Great, thank you.

Operator

Christopher Glynn, Oppenheimer.

Christopher Glynn - ***Oppenheimer & Co. - Analyst***

Thanks, good morning. So with backlog building nicely and orders better than expected as of December, I guess sort of the lowering of the organic growth in December and that played out as you predicted, was maybe a bit of an abrupt deferral of the backlog conversion. Can you characterize how you see that unfolding from here? Does that tend to favor the first half and where does that focus your bias in the 2% to 6% organic range?

Jeff Immelt - ***General Electric Company - Chairman and CEO***

Look, I don't want to change necessarily the 2% to 6%, Chris. What I would say is that the way we finished the year, the building of the backlog, I would say the strength of orders makes us feel good about next year. It makes us feel good about the momentum we have going into next year.

And then the only thing I would add to that, these are the organic growth and how it splits, again we don't do single point estimates. It's just Wind is lumpy and Wind is going to continue to be lumpy in the future. But if you take that out, you know, the rest of the Company I would say you feel pretty good about where we are positioned going into next year. And that you had pretty good data -- really you had five of six businesses with what I would call robust in the quarter from an industrial standpoint.

Christopher Glynn - ***Oppenheimer & Co. - Analyst***

Okay and then just one on GE Capital regarding the systematically important financial institution and the buffer needed for capital. Can you give any updates on the limitations on capital payout and with respect to if you are shrinking the balance sheet, is there any reason GE Capital would need to retain any earnings at some point in the future?

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

Well, it's a good question. I think for us what we have to make sure is we that are meeting what we need to have to be from a regulatory perspective and from a rating agency perspective and from a management perspective safe and secure. We expect to be well-capitalized in any scenario under Basel I or Basel III. We're going to meet the liquidity requirements that regulators have and our objective is to be able to release capital as we continue to shrink the book as you say and continue to generate profitability. And for us we think we are in pretty good shape on that.

You saw our success in 2012. We've got number one, strong earnings. Number two, we have strong liquidity with over $60 billion in cash, less than $35 billion in long-term debt we are going to issue this year and we already completed $9 billion of that. We have strong capital ratio. As you saw, we ended the year with a Tier 1 common of 10.2 on Basel I.

We reduced our overall debt by over $45 billion last year. We've got strong portfolio quality. Delinquencies are down. Non-earnings are down and we continue to make strategic progress on running off the red assets and reinvesting in the green assets.

So I think when we look at what is going on from a regulatory perspective, we have not been designated as a systemically important institution yet. We are in discussions and the main issue that happens when you are designated is that you are going to be supervised by the Federal Reserve and we are already supervised by the Federal Reserve. So we'll see how that plays out but we believe that we have a pretty good framework against the regulatory guideposts and we are continuing to operate in a way that runs the Company from a safe and secure perspective while also being able to be mindful of returning cash back to the parent and get that back to investors.

So I think we're doing a pretty good job of this. I think Mike Neal and his team had a great year against those objectives and we will have to see how that continues to play out.

Christopher Glynn - ***Oppenheimer & Co. - Analyst***

Thanks, Keith.

Operator

John Inch, Deutsche Bank.

John Inch - ***Deutsche Bank - Analyst***

Thank you. Good morning, everyone. Lots of moving parts between the segments and the results versus the outlook in orders and pricing. Can you just -- is there any way to do a little bit of a quick recap in terms of pricing particularly in Thermal but maybe parse that between gas turbine, or just some of the other segments, Keith or Jeff, that are noteworthy? What is different about fourth-quarter pricing in backlog specifically on orders versus what you saw last quarter?

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

Well, if you look in the third quarter, our power and water pricing in total was down 1.9 and in the fourth quarter, it's down 0.2. I said Thermal including services went from a negative 2.7 in third quarter to a positive 1 in fourth quarter. Wind was down 3.6 in the third quarter. It's up 0.4 in the fourth quarter on fewer orders, obviously. So those are some of the bigger pieces.

Oil & Gas third quarter 1.6, positive pricing, fourth quarter 1.3 on high orders. Aviation continued positive pricing 2.3% positive in both third and fourth quarter and Healthcare continues to have the negative pricing, 1.7 in the third, 1.8 in the fourth quarter. So overall we went from 0.1 of a point positive price in the third quarter to 0.5%, 50 basis points positive in the fourth quarter.

And it's a big area, a focus area, obviously as the whole team is working on improving margins and I think they've got some pretty good traction here. I think the supply demand characteristics are what they are by business but overall for the portfolio to have 0.5 point of positive price is a good place for us to be as we leave fourth quarter.

John Inch *- Deutsche Bank - Analyst*

I agree. Is the Thermal price that you are getting is that mix or are you actively trying to raise pricing? What's going on there?

Keith Sherin *- General Electric Company - Vice Chairman and CFO*

I think Thermal pricing is lumpy. I would take it for the whole year. 0.5% up with equipment and services, that's kind of the way we look. We are expecting to be flat to slightly positive for the year. Steve Bolze said it was going to be a little lumpy and I think that's about where we are. Obviously with the market where it is, the supply demand characteristics are tougher in Thermal.

And on the other hand, you look at Oil & Gas and the supply chain tightening, where they are better in there and they are better in Aviation. So I think it varies by business, but overall we hit what Steve said a little better for the total year on Thermal and 0.5 point up.

John Inch *- Deutsche Bank - Analyst*

Jeff, with the eventual monetization of NBC and Capital as equity investments and redline assets that are going to come off, your Company between that and operating cash is going to throw off an awful lot of cash flow over the coming years. Would you be able to reaffirm you commitment sort of not to be doing big deals or anything beyond one to three? Avio was a little bit bigger but it's still in the zone or are you thinking about perhaps in a year or so perhaps stepping that up or how should we think about that at this juncture?

Jeff Immelt *- General Electric Company - Chairman and CEO*

You know, Steve, again, -- or John, I'm sorry -- I would make two comments. I just think I don't really want to make any other pronouncements other then kind of disciplined and balanced capital allocation. So I just really -- we will go over the other bridges as we get there but let's start with that.

The second thing I would reaffirm your first point I think is one that's good for all investors to remember is this Company is going to have a ton of cash over the next three years, right? Between whatever happens with NBC Universal, between kind of as we look at where we think GE Capital is versus the guideposts Keith talked about, you know, there is going to be a lot of cash. So let's leave it at that. Let's leave it with those two comments for right now, John.

John Inch *- Deutsche Bank - Analyst*

That's okay and I'm often confused with Steve, so no worries. Thanks.

Operator

Nigel Coe, Morgan Stanley.

Nigel Coe - ***Morgan Stanley - Analyst***

Thanks. Good morning. So speaking of the ton of cash you just mentioned, Jeff, when do you expect to have signed off for the capital allocation time for GE Capital? Are you on the same schedule as the banks, which I think their stress test results are out around March.

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

Nigel, we are not one of the major banks that goes through that systemic process every year. We do go through our own process. I would say it's the best outlook would be to think of it as a mirror of 2012 and we will go through a lot of the exact same steps with forecasts and stress tests and capital plans and all that but last year we had final decisions on that in the second quarter and I would anticipate it would be the same in 2013 right now.

Nigel Coe - ***Morgan Stanley - Analyst***

Okay, that's helpful. And then switching back to December, it seems that December came in stronger than maybe your initial thoughts back in the annual meeting. Anything stand out in terms of regions U.S. versus growth markets versus Europe? Any one region stand out in terms of that ramp up in December?

Jeff Immelt - ***General Electric Company - Chairman and CEO***

We saw a little bit of strength in the US I'd say in healthcare and appliances and then we saw a ton of strength elsewhere I would say, Nigel, and we saw that in Oil & Gas and Aviation, Energy, really across the board. So again, I think it fits the broader -- it fits the broader I would say dialogue and that we kind of think the growth markets will continue to grow in 2013 and when I think about the US, you've got a slow and steady housing recovery that I think is very positive and then there is still a lot of fiscal uncertainty and how those blend through into a U.S. GDP in 2013, we will see.

Nigel Coe - ***Morgan Stanley - Analyst***

Okay, okay. Then finally on getting the MetLife deal done, how do those deposits, how does that deposit base impact your flexibility and optionality with regard to PLCC?

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

Well, we will see. I think a diversified funding base is good in that regard. Right now we will -- we already in that business as you know, a lot of it is already financed by deposits, alternative funding and securitization, so now we've got kind of a different kind of a deposits, more Internet bank deposits. And at the end of the day having more diversified funding I think does give more flexibility for future activity. We don't have any of that going on right now but I think just from having a more diversified funding base, you would have more optionality.

Nigel Coe - ***Morgan Stanley - Analyst***

Okay, very helpful. Thank you, guys.

Operator

Brian Langenberg, Langenberg & Co.

Brian Langenberg - ***Langenberg and Company - Analyst***

Good morning. Just a couple things. I will do a bunch of follow-ups later. Just review for us briefly your total exposure to 787. Obviously this is transitional or transitory.

And then secondly in terms of the power cycle, I think we are pretty much looking for a 2014 overall upturn. But how are you thinking about potentially what the impact is in that cycle from what I would call demand management, either companies making your buildings 20% more efficient or using grid to make -- if you are a utility -- using your grid to make your existing generation capacity let's call it an ops and management for utilities, if you will? If you could address those two things.

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

I'll take a shot at the Aviation first and then you can talk about Energy. If you think about 787 exposure, we obviously have inventory. Our plan for 2013, we shipped 113 GEnx engines in 2012. Our plan would be to ship 200 engines so we will see where Boeing goes with that. As I said, we haven't had any changes to the demand production schedule from Boeing on that yet and a bunch of those engines are on the 747 as well.

So for us I think if there is a push out of some engines in the first quarter, we may have a little more inventory and having less engines in rev rec may be a slight positive for margins. I don't really know the difference between what we are going to do this year versus what we did in the first quarter last year until we get finalized for Boeing.

But I don't see a material impact on this on us at all and as I said, the engines are performing extremely well. So we feel good. The customers love this plane. They've had a ton of positive feedback and Boeing has to work through this issue and they will work through it. We are confident of that.

Jeff Immelt - ***General Electric Company - Chairman and CEO***

I would echo what Keith said. I think this is an immensely popular airplane, fuel-efficient, passengers like it, airlines like it so we are here to support Boeing wherever it goes on this Dreamliner.

On Energy, I think, Brian, we already factor in the fact that there's going to be an impact on demand [side] management on demand for electricity and you factor that into I think an overall health of the gas portfolio vis-a-vis what happens with nuclear, what happens with the EPA, and then demand growth in places like Saudi Arabia, Algeria, places like that, that still remains I think intact. So we try to factor that all in but we also do factor in energy management. But we also benefit from that in our energy management business.

Brian Langenberg - ***Langenberg and Company - Analyst***

Okay, thank you.

Operator

Daniel Holland, Morningstar.

Daniel Holland - ***Morningstar - Analyst***

Good morning. Just curious on what was pushing the industrial CFOA number down I guess about 2% year-over-year, just considering the profit growth and the overall business this year.

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

Yes, really the biggest dynamic for us, Daniel, is the Wind business. The Wind business had significant progress collections in prior periods and in total, the Wind business was a drag on working capital in 2012 of about $1.5 billion. So the rest of the businesses with their earnings growth and their management of working capital were able to overcome that and then as you know, we had about $400 million of pension funding that we did that we didn't have any in 2011. So that $400 million was also part of the (inaudible). But the biggest driver for us on working capital and was a drag in the year was Wind and the businesses overcame that.

Daniel Holland - ***Morningstar - Analyst***

THOMSON REUTERS

Got you and one last one. Just thinking about margins for next year and kind of simplification strategies you guys have identified, if you think about it on a segment by segment basis, where are the biggest opportunities that you guys see and kind of which ones might have already had the biggest benefit from simplification so far?

Keith Sherin - ***General Electric Company - Vice Chairman and CFO***

It's pretty broadly across the Company, Daniel. We have every one of our teams working on lowering their structure so having more consolidated higher-level P&Ls. We have everybody participating and putting their back offices into centers of excellence and more shared services across the Company and we have a common IT initiative across the Company to reduce our general ledger and enterprise resource planning systems that is pretty much across the portfolio.

So everybody is participating. Everybody has cost targets and it's pretty broadly based.

Jeff Immelt - ***General Electric Company - Chairman and CEO***

We've got a lot of good restructuring projects that are a year, a year and a half, or two years paybacks and so we are lined up and we think we can keep -- if structural costs keep going down as a percentage of revenue, our target is to really accelerate that.

Daniel Holland - ***Morningstar - Analyst***

Great, thanks.

Jeff Immelt - ***General Electric Company - Chairman and CEO***

Trevor, thanks to everybody. I just think the team feels really good about how we did on delivering our commitments in 2012. We have identified very clearly our 2013 commitments, which we believe are very competitive against our peers and we're going to be off executing against that going forward.

Trevor Schauenberg - ***General Electric Company - VP of Corporate and Investor Communications***

Great. Thanks, Jeff. Just to wrap up for everyone, the replay of today's webcast will be available this afternoon on our website. We will be distributing our quarterly supplemental data schedule for GE Capital shortly after this call.

Just the one announcement, our first-quarter 2013 earnings webcast will be on Friday, April 19 for your calendars. As always, we will be available today to take questions. Thank you, everyone.

Operator

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

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