GE Aerospace

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GE Aerospace

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Kristine Liwag: Hello. Good morning, everyone. I'm Kristine Liwag, Morgan Stanley's head of aerospace and defense equity research. Very excited to host our next panel of GE Aerospace, with Rahul Ghai, CFO of GE. So, welcome, Rahul.

Rahul Ghai: Thank you, Kristine.

Kristine Liwag: Before we get started, you guys know the drill. For important disclosures, please see the Morgan Stanley Research disclosure website, at www.morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley representative.

So, with that, maybe, Rahul, I'll pass it on to you for some opening remarks.

Rahul Ghai: Thank you, Kristine. Thank you for having us. Obviously, excited to be here. There's lots going on.

As you guys know, GE Aerospace is a great franchise, one of the largest aerospace and defense fleets: 80,000 aircraft underwing right now; 50,000 on commercial, it's the fastest growing in the world; 30,000 on defense. We power two-thirds of the U.S. combat aircraft. So, a fantastic franchise.

And it has been a very, very busy summer for us. Last time most of us were together was at Farnborough. And prior to that, we reported our second quarter earnings. But we had a really good air show. We got about 1,800 new engine orders at Farnborough, including the largest ever aerospace order from IndiGo Airlines for the LEAP-1A engine that was a 1,000-plus engine order. And since then, we also got a 100-engine order yesterday, engines and services, from Korean Airlines. So, really strong commercial momentum in the business.

And making really strong strides on the technology side as well as we think about both the current gen and future generation of aircraft. First-ever hybrid electric flight at commercial altitude that flew from U.S. to UK. Partnership with BETA and with Boeing. But really excited about what our engineering teams have done on that front and what that can mean for the future of aviation.

And then last week we announced our largest acquisition as GE Aerospace standalone company, with CPP. Three main drivers as we think about the CPP acquisition. First and

foremost, it's about capacity expansion for ourselves, but more importantly, for the industry. We do think that with the technical expertise and the capital that we can bring we will improve the delivery performance of CPP, expand the capacity that is out there, and then that helps us get our products on time, helps the DOW meet their objectives, which is absolutely critical at this point.

Second, as we think about CPP, we announced a new airfoil that we have been working on for a while. It runs much cooler. And as we go back and think about the Maverick blade that we introduced on LEAP, it took us a long time to bring that blade to market. And having the manufacturing know-how in-house will shorten that time to market and bring that capability to our customers faster. So, that was a really important linchpin as we thought about, okay, how do we – what do we do on the castings space.

And as we worked our way through the strategic and the operational side on the value that we can bring, luckily for us, it works for our shareholders as well. We can add a lot of synergies through the expertise that we can bring, about $200 million of synergies in year three, doubling by year six. And with that, it will be EPS and free cash flow accretive in year one, with double-digit ROIC a few years out.

So, very strong strategic, operational, and financial results from this transaction, which is exactly the framework we look at every time we look at M&A.

And then talk a little bit about the environment that we are in. Good to see the air traffic growth resume. After air traffic being down in the second quarter, air traffic has been up here in July and in August. Overall – and I'm sure Kristine will take us there in a minute or two as we think about the services outlook – we are not seeing any change in fleet plans from the airlines. The parked aircraft remain really low from the airlines. The retirements are actually down year over year, down about 10%, '26 over '25.

So, we're really not seeing any long-term change in fleet plans from the airlines. And our own engines that we have removed but not inducted, that is up 60% year over year as we sit here today, current numbers versus last year's numbers.

So, we feel good about our overall, as we think about CES, results for the year. CES should have a fantastic year. So, sticking with services, we expect 20%-plus growth on the services side, just given the backlog that we are seeing currently that's sitting outside, plus-$170 billion backlog that exists in services over a multiyear period.

And on the OE side, we continue to make strides. We expect LEAP deliveries to be up high-teens year over year. On the wide-body side, we're seeing really good momentum. Our GEnx deliveries were up 50% year over year in the second quarter, with higher growth on installs. So, Boeing, we were able to ship even more than 50% engines year over year basis, and the momentum is continuing there into the third quarter.

And then, on the defense side, we expect low double-digit growth, with margin expansion in 2026.

So, overall, it should be a really good year for us. More than $1.5 billion of profit growth, 100% free cash flow. So, strong performance in '26, and the momentum should continue to 2027 as well.

On the services side, we've spoken too that we expect double-digit growth, just given the algorithm that we have of install base, pricing, work scopes. All that kind of sets us up for a run-rate double-digit growth business. And just given the delinquency that we have

right now that we're sitting on, maybe there's some incremental volume as we think about 2027. Obviously, we'll give a little bit more color on that as we get into October and then Jan.

But again, things look as good as they possibly can. I'm sure we'll get a little bit into the air traffic growth and other things that we're seeing in the market. But we feel good. I think given the operational momentum that we have, given the value that FLIGHT DECK is driving, and given a $210 billion backlog, we feel good about the long-term delivery performance of the company.

Kristine Liwag: Well, thank you, Rahul. And so, I think in this conference, just for context, the past few days I've heard from investors a lot more concern about commercial aerospace aftermarket. But as you discussed in your opening statement, you've got a robust operating order activity. Also, you've got $170 billion in commercial services backlog as of last quarter, without these incremental orders. And you've talked about how shop capacity is oversubscribed and customers are resilient.

But can you just peel back the onion a little bit? With the volatility in air traffic, how is that actually translating into your business? And then, how much buffer is there in terms of the unmet demand that is inherent in the system versus what you're able to meet? And how long does that buffer last if this environment – if we're in a flattish RPK environment?

Rahul Ghai: Absolutely, Kristine. So, just in terms – again, let me just build a little bit on what I had in my opening comments about what are we seeing externally. So, if you look at the – so, what drives long-term services growth? The number of engines that are flying, clearly, that's one; growth in work scopes; and pricing. Those are the three main drivers.

So, let's talk about what's happening on the install fleet side. As I said, retirements are down 10% year over year so far through the last couple of weeks. Even for CFM56, which has been a lot of discussions that we've been having with investors, retirements are almost flat year over year through the first nine months of the year, in eight and a half, nine months of the year.

And we expect, just given what we are seeing now and given that we are almost at the end of September, we think retirements will settle somewhere between 1.5% and 2%. Looks closer to 1.5% right now, is where we think.

Now, Kristine, as we gave 2026 guidance, remember, we started by saying this could be – when we gave '26 guidance last year, we said CFM56 retirements would be 3% or 4%. Beginning of the year, we took that down and said, okay, given what we're seeing, it's probably 2% to 3%. Right now, what we're seeing it's somewhere between 1.5% to 2%. So, CFM56 retirements are really low.

And as we think about the future, the long-term guidance that we've provided to investors, what's been the basis of our 2027 and '28 numbers, internally we had expected retirements to get to 3% to 4%. Now, we're not seeing that based on the current trends.

And again, the precursor to retirements is the number of parked aircraft. The parked aircraft is actually down year over year. If you look at the number of airlines that parked their aircraft and they park aircraft before they retired them, that is actually down on a year-over-year basis. So, that is looking good as well.

Now, coming back and taking a little bit of an internal look on what we are seeing, as you pointed out, we said, when we reported results in July, we said we are 40% oversubscribed on shop visits for the year. And even now, as I said in my opening remarks, last week versus a year ago last week, the number of engines that we have removed but not inducted into our shops is up close to 60%. So, that, the engines continue to come off.

And now, as we fast-forward that into 2027, we expect that engine removals will be up double digits, more than 10%, in the first half of next year, which is the visibility that we have, and then we'll get into the second half.

So, overall, we're seeing stable trends. Yes, the traffic growth has been slow the last couple of months, and obviously second quarter was down. That will work out over time. But as we look at the pent-up demand that is out there, that gets us through obviously 2026, but even as we look at 2027.

So, we've got a long-run trend for services growth is double digits. But given the delinquency that we have, given the pent-up demand that exists from the airlines, there could be incremental growth on services for next year.

Kristine Liwag: Well, that's very exciting, despite all the uncertainties. So, Rahul, maybe on CFM56 – you touched on this – you've been taking down your expected retirement for the year. So, when you think about that 1.5% to 2%, why is it so low versus your initial expectation of 3% to 4%? And when you think about how 30% of the CFM56 fleet haven't had its first service visit and two-thirds haven't had their second, how long is this CFM56 demand? And what's in your planning horizon? Because it seems like the program has just been performing much stronger with more demand than your initial expectations.

Rahul Ghai: Thank you for that question, Kristine. Listen, it is a great aircraft, and we'll talk a little bit about what we are seeing now as airlines think about what can they do with the aircraft and other customers, the demand that we are potentially seeing outside the aviation industry for that platform.

But just to step back, the retirements rates have been low. Ultimately, as you go back to COVID and maybe even prior to that, I think what we are hearing from our customers is they were very, very quick to take capacity out. And once they took capacity out, the market share became a huge challenge for them. So, I think airlines are just being very deliberate about their plans for fleet today than they were maybe a few years ago, just learning from prior experiences. So, I think that's what we are seeing, the retirements.

And it's a really well performing aircraft. And given the durability performance that we've had, I think that is partially driving a lot of the stability that we're seeing on the performance.

And even if you think about the retirements, 80% of our work on CFM56 comes from aircraft that are less than 20 years old. And if you look at the retirements that typically happen at aircraft that are more than 20 years old. So, even as we think about the impact for retirements, that's obviously limited.

And there have been lots of discussion on the work scope for CFM56. Now, the work scopes in CFM56 have been very stable, and that's driven by two things. One, most of the aircraft that are coming in now need life-limited parts replacement because they've kind of flown the number of cycles they've flown. So, that gives a little bit of stability.

Now, we've been able to drive that work scope expansion because the material availability has improved over time. So, that has helped us fulfill that life-limited part demand that we could not do a few quarters ago. And what we see now into the remaining four months of 2026 and into '27, we do expect the work scopes to be absolutely stable for CFM56, just given the need for replacement of life-limited parts.

So, that is what we're seeing.

And then, we've spoken about the the 2,300 to 2,400 shop visits, which is higher than probably where we were. Maybe a year ago, we were expecting 2,300 shop visits for this year and for next year. We raised that expectation beginning of the year to 2,300 to 2,400. And as we're sitting here today, we think that number for this year and next year probably closer to 2,400 than 2,300.

And then, on the used material side that you mentioned, even as retirements happen, that typically takes – once you retire an aircraft, that takes six to 12 months for that material to show up. So, even if retirements do pick up, there's a lag before the used material comes in. And that is not factoring in the demand that comes from the non-aviation sector that, as you know – I mean, you cover some of those players in the industry. You're closer to it than I am, in some cases. But I mean, we are seeing a lot of pull from the power gen sector to convert these CFM56s into now providing power for the data center needs. And if you just look at what just one company, FTAI, has announced, they are talking about 100 engines next year, and that 100 engines is roughly a point of retirement. So, if you think about retirements going up from 1.5% to 2% this year to maybe 3% or so next year, you pull that demand out, you're back at 2%, right? So, that will provide a little bit of cushion to the retirements.

What that basically means for us is lack of used material in the market and, (b), incremental spare part sales. And FTAI is just one of the companies that we are talking to. We're talking to several other players in the market that are exploring similar plans.

So, we feel really good about the franchise. We think the revenue here is – the work is stable through '28, and then a little bit of revenue growth beyond '28, just given the pricing and the work scope changes that we'll see.

Kristine Liwag: I think FTAI will take any incremental CFM56s that come out of service. They said they'll pay $100 more than anybody.

So, with that, Rahul, look, switching to the LEAP engine. You've indicated that durability kits can approximately double LEAP time on wing, and LEAP shop visits are still expected to grow roughly 25% annually through 2030. So, as durability improves, especially with the Maverick additions and things like that, how should we think about the trade-off between fewer engine removals over its life versus higher work scope, material content, when these engines need to go into the shop? Ultimately, could better durability improve both customer economics? And can that also improve GE's margin economics in the program?

Rahul Ghai: I think it's a really good question, Kristine.

I think, just to step back, we launched the durability kit, which included the new blade, on Airbus last year. We're doing that with Boeing in the first quarter of next year. We're certified. We're ramping up production. We'll introduce that into the fleet in first quarter of 2027.

What that does is basically brings the LEAP durability at par with CFM56. What does that mean? It means 17,000 to 18,000 cycles in a neutral environment, 8,000 to 10,000 cycles in hot and harsh. Now, convert that to what that means for us, it is like in a neutral environment an aircraft does not need – an engine doesn't need to go in for an overhaul for eight years, eight to nine years. That's a really long time. So, you think about an airline. You're buying an engine, and you don't need to bring it for a shop visit for eight to nine years. That's a really long time.

So, this obviously helps a lot with their fleet planning and their ability to generate revenue. So, that's what we're seeing. And a good sign, I mentioned the IndiGo order, Kristine, at the outset. And what IndiGo also did, besides placing a 1,000-plus engine order with us, is also that they will set up their own overhaul shop, and they will service the engines.

So, the reason that statement is important is because that tells you that the airlines are getting more and more confident that they can underwrite the performance of the engine, and they don't need us to underwrite the performance of the engine. So, it just speaks to the confidence that the customers are now getting in this product.

So, it's a sea change from where we were just a couple of years ago. So, that's a really good sign.

And I think that takes us into what does that mean for us and our financial performance. A couple of things. One, with the durability kit, the time on wing for the LEAP is now absolutely in line with our financial models. So, that is what we had underwritten. So, that lines up with our financial model. So, that's a really good step.

So, now where does the LEAP profit go from here? I think we've said that before, that we expect LEAP profit to be at par with CFM56 by the time we get to 2030. What drives that? Obviously, the fact that the LEAP install base will be 2x between '25 to '30. So, we'll double the install base by the time we get to 2030 than just we were there maybe a year or two ago.

The repairs on LEAP, we're growing repairs on LEAP at more than 20% a year. So, when we can repair a part that is less than half the cost of a new part. And obviously, also helps with the turnaround time because we don't need to stress the supply chain that is trying to support both new make and aftermarket.

So, volume growth and repairs will be a huge part.

Then the third-party channel is growing as well. Last year, we did about 15% of the shop visits were done by third parties. If you look at the number of shop visits that we have sold, about 25% of the shop visits that are on a sold basis are to external third parties. So, we expect that by the time we get to 2030, about a third, 30% (ph) of the shop visits will be performed by third parties. So, that channel doubles as well. And obviously, as we're driving more shop visits, we get to use our fixed capacity more.

So, it's really good progress on LEAP in terms of just the runway that we are on in terms of durability.

Now, what that does not factor in, Kristine, as you go beyond 2030, two things. One, now we said that LEAP profit will equal CFM56 by the time we get to 2030, and the install base of LEAP will equal CFM56. That doesn't factor in any growth that the platform will see for the next whatever time between 2030 and the next-generation narrow-body, which

is several years out. So, if you look longer term, LEAP is going to be at least 2x the profit of CFM56 just based on the install base growth, even if you do nothing else.

And then, the new airfoil that we announced last week with the CPP transaction, that is just what we do inside the company. That's just part of the DNA of GE Aerospace. If you look at CFM56, they are on third-generation blade. And with this new airfoil, that will be the third-generation blade on LEAP. And if you just look at the pictures – we'll spend more time explaining to everyone what that technology does – but just if you look at the pictures on the current blade versus the new blade, if you look at the new blade there's a lot more blue on it, which means it just runs much cooler. Now, that improves the durability of the engine even further from where we are today. So, that's positive.

And then as we think about our margins, as I said, the current margins are in line with the durability that exists on the engines that we are selling today. Any improvement from this point on is will be incremental to our long-term service margins on LEAP.

So, I think there's a lot more runway on LEAP than what we're currently seeing.

Kristine Liwag: Wait, Rahul. I just want to confirm. So, basically, the announcement with the CPP airfoil blade, that is not factored into your previous margin outlook. So, when you talked about you were doubling CPP capacity through 2030, I mean, 2030, there's a possibility that LEAP not only is in the same margin as the CFM56, but significantly more. Is that –? I just want to understand that.

Rahul Ghai: Absolutely. So, I think the first part of your statement is correct, Kristine. We have not factored in any improvement in airfoil technology in the margins that we are recognizing today.

Now, the second part of your question, we've not announced the timing of when we introduce the airfoil. We'll do that here...

Kristine Liwag: I was assuming 2030.

Rahul Ghai: So, we'll get that here in the next few months. We'll talk a little bit more about that.

But as and when we introduce that – so, no timing on that just yet – as and when we introduce that – and again, it's not a conceptual product, Kristine. It's something that we've been testing internally. There's more than 3,000 test cycles that we run in our own labs. So, it's a real product that's going through testing. We'll have to obviously get through FAA certification and everything else and industrialize it. So, we'll talk more about the timing, but it's in progress.

Kristine Liwag: Great. Maybe switching gears to the GE9X aftermarket inflection. You've talked about the GEnx also going to double from 2024 to 2030. And I think – can you talk about where the fleet is today versus light shop visits versus full performance restorations? And when do you expect to see a more mature, like, aftermarket stream from this engine, where it's significantly contributing to dollars per shop visits?

Rahul Ghai: Now, listen, we are really proud of the GEnx platform. It is a fantastic platform. One of the things I didn't mention at the outset was, at Farnborough, we announced that the GEnx engines have flown 50 million cycles. That's the fastest that any wide-body engine has done that for us.

And if you think about where we are today, although we've flown 50 million cycles, as you mentioned, our install base will double between '24 and '30. We've got more than 2,000 engines in backlog today on GEnx. Our win rate on the platform has been more than 95% if you go back all the way from 2022. So, just given the win rates, we're seeing huge backlog, huge increase in deliveries over the next few years.

So, it's a platform that is – it's doing really well, but has a lot of growth ahead of it.

Now, as you mentioned, if we get into on the services side, you're absolutely right. I mean, 90% of that fleet has – 50% of fleet hasn't seen the first shop visit, 90% hasn't seen the second shop visit. So, the work will grow because most of the work that we're doing today on GEnx, 80% of the work is on the first shop visit. And there's about 50% to 60% increase as we go from first shop visit to a second shop visit a wide-body platform.

So, as we migrate from the first shop visit, which is majority of the work that we're doing today, to a second shop visit, the work will grow. So, that will drive incremental profitability, but it is really profitable for us today. The margins that we are recognizing on nx are over and above the overall CES service margins. So, it's a profitable product today.

I think over time as the install base grows, as we drive incremental work scope – and also, what's also happening is that we are working – the pricing on that platform is a lot better. As we look at the engines that we sold between '19 to '21 to between '22 to '25, '26, the pricing is about 30% higher on a shop visit basis. So, the higher priced shop visits will start flowing through as well.

So, I think, again, we're going to see a lot of momentum nx on the services side.

But we're also seeing momentum on the OE side, Kristine. I think that's been the other change here as we think about GEnx. Our deliveries were up 50% year over year in the second quarter, more here in the third quarter. Both on a year-over-year basis, we expect stronger growth on the OE deliveries to Boeing and to our airline partners in the third quarter, along with sequential growth.

Kristine Liwag: Great. Now, on the 777X, Boeing said yesterday that the program is still going through some delays. Can you talk about what's GE's role? What's happening with the GE9X? And I think there were some concerns about the mid-seal and durability. Like, where are you on this program? And you the hold-up for their progress?

Rahul Ghai: So, first, proud to be under wing on 777X. Really excited about the entry into service next year.

So, the engine has been certified since 2020, as you know, Kristine. So, what we've found – I think what Kristine's talking about here – as you're going through the testing of the engine, we found our mid-seal, which is one of the parts that connects the front and the back of the engine, was not as durable as we had expected, which is the reason you test the aircraft.

So, there are two separate things that we are working on right now. Let's talk about certification first, and then we'll talk about production.

So, on certification, we do not need the new mid-seal for certification. The plan was and always has been that we can have the certification completed with the existing mid-seal. We've been working with FAA to get that done. We're going to – Boeing needs to submit

that approval to FAA, along with all the other approvals that they need for TIA completion here so that they can start the ETOPS testing. So, that work is underway. I think Boeing needs to file the paperwork, and we have a support role in that, which we'll work with Boeing to make sure they file all the paperwork that is needed for FAA to approve ETOPS certification, and then ETOPS flights can start and testing can start.

So, that's on the certification side. We do not need the new mid-seal for that. The existing mid-seal will work. We just need FAA to approve that, along with all the other approvals that Boeing needs on TIA. So, that's the first part.

The second part is, on the production side, we do have a new mid-seal. We understand the challenges, what happened with the first mid-seal. We have a solution. We've tested that thoroughly internally. We've been talking to FAA about what that means. Huge degree of confidence that our design will work. The confidence is so high, Kristine, that we've incorporated that design in everything that we are producing today. We started shipping those engines with the new and improved mid-seal to Boeing in the third quarter. We're going through the FAA certification process right now. FAA is doing the testing. That should get completed here in the next few months, and then we'll rev rec those engines.

So, two separate paths. The ETOPS certification does not need the new mid-seal. The existing mid-seal works. That was always the plan. So, we're just executing that plan and supporting Boeing in what they need to do to get that certification for ETOPS. And then for the production aircraft, we have a design. Confident that it's working. We've put that into production. We don't have the FAA certification on that part yet, but we expect that here in the next few months. So, confident that that is not going to be the hold-up as we think about entry into service next year.

Kristine Liwag: Thank you, Rahul. Now, on production rates, you touched on the increasing OE deliveries for GEnx, but let's look at production rates a little bit more broadly. Boeing and Airbus want to ramp up production at a variety of programs like the 737 MAX, 787, the A320neo. What are you seeing regarding demand signals? And by the way, in case you didn't hear it, Boeing yesterday was very favorable, saying that they're getting all the engines on the LEAP on the 737 MAX. So, that seems to be pretty good. But what demand signals are you seeing? And when you look at the capacity that you have today and what you can see from the supply chain, how are you able – how is your confidence in your ability to meet the production rates the OEMs have put out there?

Rahul Ghai: The demand is very – I know we're going through this short-term hiccup here with the traffic growth and everything we spoke at the beginning of the conversation, Kristine. But longer term, if you look at the growth rates that are out there and what the airframers want and the way the install base has grown over the last few years, the demand outlook over the medium term is very strong. I mean, you look at where Boeing wants to go, not just with their narrow-bodies, with the MAX, but even with the wide-bodies, they want to take the 787, which is at, whatever, seven, eight right now, they want to take it up to 14 over time. MAX obviously wants to go from low-40 the first part of this year to somewhere in the 60s. So, that's close to a 50% increase. And same thing's happening on the Airbus, both the narrow-body and the wide-body.

So, there's a lot of new demand coming, and everybody is expecting every single platform to be at least at a 20%, 25% CAGR from now till '28, '29. So, there's a lot of growth.

And that's just one side of it. If you look at LEAP, we spoke about the LEAP shop visits need to be up 25% a year, along with the work scope on LEAP that'll grow as well. Because right now, LEAP work scope is half that of a CFM56, just given because these are 90% of the shop visits that we're doing on LEAP are live shop visits. So, on LEAP aftermarket, what you will see is not only that the number of shop visits will grow at 25% per year, but the work scope will expand as well. We spoke about same thing's happening on the GEnx, where we'll go from first shop visits to second shop visits.

So, all in to say that there's a huge demand growth that is coming at us. So, what's happening right now is that we are trying to meet that demand as best as we can, and you can see that in our material receipts that we have. Our material receipts have been up sequentially for nine consecutive quarters.

But we need to do more. Everybody in the industry recognizes that. There's a lot of hard capacity that is going in. And it's just not – I wish there was just one commodity, one part that's happening. There are multiple places where the industry needs to add hard capacity to support the growth. And that was part of the thesis why we had the CPP transaction, and we're going to combine our capabilities with that of CPP so we can meet that demand. But that needs to happen – castings is just one of those many areas that we need to work on.

So, it's a constant challenge. Anybody who thinks that this is a conversation that we won't have six months from now, 12 months from now, is just not staring at the problem hard enough. This is going to be a challenge that we are committed to working our way through, but it is work we need to do.

Kristine Liwag: And so, Rahul, with that, on the supply chain and vertical integration after CPP, how do you think about that supply chain management broadly? Do you anticipate you'd have to do more vertical integration? Are there areas that you're worried about? We're hearing from the other parts of the supply chain, OEMs like yourself are buying dedicated capacity. How do you think that hard capacity gets to be put in place?

Rahul Ghai: Listen, broad vertical integration is not the solution, Kristine. I think CPP was a unique situation where we had – where we felt we could add value to the way CPP was running. We obviously have the new airfoil that we are trying to introduce. And having CPP in-house would accelerate that time to market, as we spoke, and the financial accretion that we discussed earlier.

Beyond that, we are doing everything we can. We are partnering with suppliers to improve the day-to-day operations, working with them to run joint Kaizen actions. We have more than 500-plus engineers that we've been talking for last several years deployed into our supply base to help improve yields, improve quality, solve industrial bottlenecks, if there's a second shift we need to add. And we are jointly investing with our suppliers. We're sharing the CapEx investments where they have. Our production system is a lot more stable. So, we're giving them firm indication on our demand that exists out there because we have the visibility. So, our interaction with suppliers has been much better.

So, it is a broad-based effort to get the delivery up to where it is needed, and CPP is just one action. That's not to say that we're going to go vertically integrate every single part of our value stream. That's not practically possible. But there will be joint work on improving, removing bottlenecks in the existing shops. Adding CapEx will contribute to that. And then solving other issues that may arise over time.

Kristine Liwag: Great. In the interest of time, I'll ask one last question. Look, on free cash flow, your conversion has been exceptionally high. You had 140% free cash flow conversion in 2Q, and you said it wasn't really driven by any one-time items, but it should be a little bit structurally lower over time. So, I guess, what is the right free cash flow conversion for the company considering everything you've said so far in our entire presentation was very positive, everything seems to be going up. So, where are the deltas and what's the floor in that conversion?

Rahul Ghai: So, put CPP aside for a second, Kristine. But overall, there's nothing structural that should say that GE Aerospace should drive free cash flow above 100%. The reason we've been able to do it is our contract assets/contract liabilities have been very favorable.

Growth in install base is a good thing. Because a lot of these contracts have long-term service contracts, which basically means that we earn cash when airlines are flying the aircraft and we get cash prior to some of the work being done. So, that has been favorable.

We've done a really good job, our teams have done a really good job bringing the receivables days down. And you saw that here in the second quarter. Even with our growth that we had, our receivables were actually down year over year. So, our receivables days are down to low 40s right now. So, that's really good.

Now, as we go into the next couple of years, we feel that contract assets/liabilities will be less of a tailwind because the shop visits will pick up and eat into some of the buffer that we have. But we've also added – one thing that we have not done very well, is inventory. We've added $5 billion of inventory over the last few years. And even if the rate of growth slows down, the rate of inventory growth slows down, that will be tailwind to cash flow generation.

So, I think, over time, Kristine, this should normalize to 100% of net income. But given what we see right now, we should be above 100% at least for the next two to three years, and we'll take it from there.

Kristine Liwag: Well, great. Well, thank you very much.

Rahul Ghai: Thank you.

Kristine Liwag: This concludes our session on GE Aerospace. Thank you for joining us.

Rahul Ghai: Thank you.