GE Aerospace

Edited Transcript

GE Aerospace Bernstein Strategic Decisions Conference

CORPORATE PARTICIPANTS

H. Lawrence Culp *General Electric Co - Chairman of the Board, Chief Executive Officer of GE Aerospace*

CONFERENCE CALL PARTICIPANTS

Douglas Harned *Sanford C Bernstein & Co LLC - Analyst*

PRESENTATION

Douglas Harned - *Sanford C Bernstein & Co LLC - Analyst*

Okay. I think we're ready to go. I'm Doug Harned, Bernstein's Global Aerospace and Defense analyst, and I'm thrilled to have with us, again, GE Aerospace's CEO and Chairman, Larry Culp. Larry has got a few things he's going to take us through and then we'll go into the Q&A.

H. Lawrence Culp - *General Electric Co - Chairman of the Board, Chief Executive Officer of GE Aerospace*

Great. Doug, thank you. Good to be back. We always enjoy this conference, not only it is well timed, we seems to be an opportunity to get out of the details of the quarter and really talk about what's distinctive and unique about GE Aerospace, both today and do we think about the business going forward.

As Doug said, I will run through a few slides here, and then we get into Q&A. Just to level set everybody in the room, GE Aerospace today, last year, $42 billion in revenue. People think of us as a hardware business, but we really are a services play, 70% of revenue coming from the support of an installed base that is 80,000 engines, large cutting across both commercial and defense applications.

We're really proud of that. We're out there with customers day in and day out. You couple that with the fact we've got $210 billion of backlog, $170 billion of that in commercial services. We really think that we're out there in all the right places, well positioned not only to support the customers, but to grow our business and generate returns for shareholders for some time to come.

How do we do that? I mean, very simply, our strategy is focused on today, tomorrow and the future. And we think about the challenge and the opportunity really being running at 3 speeds at once. Will be no surprise to anyone in this room that the airlines are working very hard to make the most of the fleets that they have today, all the while the airframers are looking to ramp production rates to help expand and modernize those fleets, that has us very busy today.

The airlines really aren't going to change course. We don't think the airframers are either. I don't know, Kelly was up here a moment ago, whether you're talking Boeing, Airbus or really anybody else. Tough to get a slot anytime between now and 2031, 2032. So we need to make sure we're preparing ourselves for tomorrow as we work those dual ramps in commercial.

We'll talk a little bit about our defense business, the same thing is happening in the fence. So there's a lot in that regard.

All the while, we cannot waste a day with respect to investing and developing the technologies that will define the future of flight. That is really core to our purpose. It's core to our strategy, again, on both the commercial and on the defense side of things.

We'll Talk about flight deck. That's our proprietary lead operating model. That's how we translate strategy into results. Whether we're talking about our operating results, our financial results, our strategic breakthroughs, what we refer to as Hoshin Kanri. And maybe most importantly, the culture that we're looking to build and sustain over time.

We think the right culture is what will under good outstanding results.

If we look at what FLIGHT DECK has enabled us to do, there's probably no better proof point than the chart that you see here, both with respect to commercial service revenue growth and total engine deliveries. You can see in the first quarter, both were up about 40% year-over-year, but really building on a very strong sequential and year-over-year trend.

What FLIGHT DECK allows us to do with that maniacal daily focus on safety, quality, delivery cost in that order is make sure that everywhere in our operations, be it a manufacturing facility or a repair shop that we're looking to reduce all of the Mouda, all the waste, so we can improve cycle times and improve deliveries. A lot of ink has been spilled on supply chains. Supply chains have certainly been a challenge for us. But we've used FLIGHT DECK at the same time to go in and really do deep technical, collaborative problem solving. With suppliers that you might own, suppliers you will never hear of.

And that has really enabled us to unlock capacity and generate better flow, which in turn feeds our facilities, which allows us to ship new engines to the airframers and allows us to complete shop visits, deliver spare parts to third-parties as well in the aftermarket. And that's really, I think, more than anything, where you can see FLIGHT DECK in action at GE Aerospace today.

We announced first quarter earnings back in late April. One of the things we said is, we'll see at Bernstein. And again, a little bit of the reason we think this commerce is so well timed because we were dealing with the situation in the Gulf. We had a very strong first quarter, talked to everyone at the time about how we -- we're leaning towards the high end of our range, but we held the range by and large because we just didn't think it would be a good form given the uncertainties in the Gulf to do so. If that were not the case, if we didn't have active combat, we clearly would have done something with the guide.

The update that we would share with you this morning, I think on balance is actually quite positive. Now none of us know how things are going to play out in the Gulf. But if we look at parked aircraft, and that's important to us because that's a leading indicator of retirements. We actually have seen parked aircraft decline in numbers, not only here in May relative to April, but we're down from where we were at the beginning of the year. We think that's a good sign, a bow wave of retirements, we do not believe is looming.

Maybe most telling is while we were very pleased with the 30% growth that we saw in our spare parts orders. When we were together at earnings through the first quarter, we've actually seen an uptick. So what was 30% before the last 60 days or so has been closer to 40%. So no real slowdown in terms of what airlines are doing, what third-party shops are doing with respect to spare part procurement. And it's one thing to have spare parts, but you need the engine to do the work.

And what we have seen is a continued growth in the engines that are being taken off wing, not yet even inducted in one of our shops or one of our third-party partner shops, but getting ready to come our way. So we think the airlines are continuing to invest and prepare for whatever is on the other side of the current situation and we're well positioned in that regard.

This is probably the most important slide that we will share with you in the course of the opening remarks here. You really think about GE Aerospace, what makes this franchise unique really is the experience in the investment envelope that we have, 2.3 billion flight hours, an unparalleled amount of experience. And with a $3 billion investment spend every year. We continue to invest in the technologies of the future.

I want to take you through all the platforms on this chart, but suffice to say seven new engine platforms over the last 20 years. A lot of learning, one generation to the next. And the lines aren't straight, narrowbodies don't always leverage narrowbody experience, widebody's the same. Well, if you will, cross-pollinate all the experience we can in terms of material science, in terms of durability, in hot and harsh environments to make sure what comes next is even better than predecessor platforms.

And that is really the heart of what we are referring to when we say the future of flight, whether we're talking about RISE, our technology development program for next-generation narrowbodies, let alone everything that we're doing in adaptive cycle engines which really are at the heart of sixth generation combat jets. The investment and the experience that we have at GE Aerospace, we believe allows us to position ourselves very well, again, not only for today and tomorrow, but ultimately for the future.

I'm going to spend a couple of minutes just giving you a quick update on where we are with our key platforms. The workhorse of the industry, as I'm sure many here in the room know is the CFM56. What people, I think, need to keep in mind is while this is maybe not only the largest fleet out there, it is still a young fleet. I say young, the average age of the fleet today is about 15 years. About 30% of these engines have yet to see their first shop visit.

So while we think that we're going to see after 2028, a modest decline in the number of shop visits, this is still a critical engine all around the world. It's one thing to have shop visit volume. But clearly, to keep the revenue and the profit profile stable, workscopes and price come into play here. And we really have seen very little to suggest that workscopes will come under pressure, again, in large part because of the age of these engines, some of which haven't seen a first shop visit, I think over half haven't seen their second shop visit. So there's still a lot of runway here, runway that we're well poised to serve.

If we go to the other piece of our narrowbody portfolio, the LEAP engine, clearly the fastest-growing engine platform in the world. We're going to see this installed base double in size between now and 2030. That's going to drive shop visits that will grow at a 25% annual rate and shop visits that will be, frankly, more impactful for us as we go forward. We're going to be moving structurally from basically early quick turn shop business is something that's more of a performance restoration visit, higher calories, higher dollars in that regard. We will continue to push repairs more rapidly now that we're in this point in the cycle, that will improve the overall economic profile.

We'll be doing more with third-parties as opposed to seeing these shop visits in our own operations, that's an opportunity as well for us to improve the profile. And that's before we see the full impact of the post-launch pricing in a number of our aftermarket contracts.

So there's a lot here that we're encouraged by. And as you get out to the far right on the slide, you see in 2030, the profit dollar contributions between the two narrowbody platforms will be roughly in the same neighborhood. So a lot still to play for with the CFM56. LEAP, very well positioned in a similar fashion.

We go to widebodies. We don't talk a lot about our widebody platform, and I'm not quite sure why, because this in its own right is a really strong business. We have around 55% of the commercial departures. In the widebody sphere today, we've got the fastest-growing widebody engine in the GEnx. We will see that continue to grow.

As you see on the slide, we're winning over three quarters of the jump balls on the back of a 787, and we continue to believe this is going to be an engine that will win in the marketplace. That gives us an outlook to grow our shop visits in the high single-digit range. And again, not unlike what we are seeing with the narrowbodies, we think the structural progress that we're going to make with the new engines, advancing toward more higher calorie shop visits like the GEnx and the stability in the CF6 and the GE90 bode very well for what we're going to be able to do in widebodies.

You put all of that together, you've heard us in other settings talk about a top line double-digit trajectory over the medium term for our commercial services business. There's no reason that, as we sit here today, we see any real change in that regard. We'll be in the -- probably the mid-teens are better here this year given what we've seen so far, very encouraging in that regard. And again, it's really a function of seeing the installed base grow as airlines look to expand and modernize with deliveries outpacing retirements. And at the same time, that volume getting leveraged in large part through FLIGHT DECK, workscopes structurally working for us in a number of ways.

And again, some contribution from price. You put all that together, we're going to have a very good '26. At this point is, given what we know with respect to '27, we think we will see growth very much in line with that medium-term outlook, but continue to watch current events. But in terms of what we see on the part of our customers, what we're seeing in terms of our own operations, feeling very good about the current environment.

Doug, you were with us last Tuesday, up in Lynn, Massachusetts, just north of Boston. We had about 30 investors in the house for a half-day deep dive on DPT, our Defense and Propulsion Technologies segment. If we don't talk enough about widebodies, we certainly don't talk enough about our defense business. But it's a business we're very proud of, $12 billion in size, a 30,000 engine strong installed base powering two-third of the US and allied jet and rotary fleet that's out there today in a business that we think is going to grow, not only

because of the platforms we serve, both rotary the Black Hawks, the Apaches, but also fighters in terms of not only new units and sustainment revenues.

But 30% of this business is in international markets, whether we serve that through foreign military sales, or by way of our Avio Aero business in Italy, which really unique here is we've got platforms like the F110 and others that really give us the opportunity to go in and support a number of the indigenous developments that are going on around the world, be it Sweden, be it Turkey, be it India, be it South Korea, well positioned in that regard.

Doug, when you were there and others, I think there was ample evidence of how FLIGHT DECK is helping us drive not only better output, but better productivity across not only the Lynn campus, but the business at large. And again, as I mentioned earlier, with respect to the future flight, everything that we're doing, not only to modernize and upgrade the Black Hawks and the Apaches with the T901 platform, but all the sixth gen activity, we really think that we're well positioned in that regard.

But we're not wed exclusively to the so-called exquisite platforms. Folks that were with us got a deep look at what we're doing in terms of lower-cost platforms with some partners like Kratos and Shield AI, interesting opportunities without question, but also, frankly, infusing a different skill set in our organization. We have incredible engineering capability, sometimes that can come at the expense of cost positions or ramp rates and having some disruptive partners in the room really is conducive, I think, to making sure that we're providing the technologies and the options that the customer wants at both ends of that spectrum.

And then I was just to wrap up here. This is a slide some of you have seen before. But in terms of the key value propositions for investors, we really do think it starts first with that 80,000 strong installed base. That's the ballast in the ship. Our performance in both commercial and in defense applications delivers the highest operational reliability out there.

That, in turn, makes us, I think, the preferred platform under virtually any wing in the marketplace. Again, 2.3 billion hours of flight experience, coupled with $3 billion of R&D spend annually, really will position us well to continue to define the future flight, but it all has to be operationalized to make sense, right, for both customers and investors at the end of the day, and that's where FLIGHT DECK kicks in.

So a lot of good things happening at GE Aerospace. And Doug, maybe we'll leave it there and go to Q&A.

QUESTIONS AND ANSWERS

Douglas Harned - *Sanford C Bernstein & Co LLC - Analyst*

Okay. Great. Thanks, Larry. You talked about looking at the impact of the high fuel prices today and that so far, you're still not seeing any real negative impact. Can you give us a sense of how you're looking at Q2 right now, given that?

H. Lawrence Culp - *General Electric Co - Chairman of the Board, Chief Executive Officer of GE Aerospace*

Well, certainly, I think we have seen, and you've written about this, departures have softened here over the last eight weeks or so. I think we're looking at year-to-date departure growth being relatively flat. But I think we feel very good about the second quarter. Again, largely because we have really seen no operational impact, no commercial behavioral changes on the part of our customers. Now we knew we were going to have a strong second quarter, just given the sheer backlog, both from a new make and from an aftermarket perspective.

But again, the reduction in parked aircraft, continued strength in spare part orders, removals continuing to be strong and frankly, the FLIGHT DECK progress that we're making, particularly in our shops, allowing us to complete more shop visits more rapidly, get spare parts out the door. I think we feel very good about where we are here in late May.

Douglas Harned - *Sanford C Bernstein & Co LLC - Analyst*

Now the concern that we have had has been not so much the near term. And at least our understanding is for, say, CFM56, you've got more than 12 months backlog of shop visits. You've got a lot of support there. Huge demand. Our concern has been that if this extends that you could start to see some airlines get into financial trouble, be it cash strapped, have a difficult time getting an engine induction or even paying the way through.

So can you help us understand kind of the process here, if you imagine, say, just -- can pick a developing market, low-cost carrier type of a situation where they could get hit, not have the cash. What is the process you go through to deal with that if they flat out can't pay?

H. Lawrence Culp - *General Electric Co - Chairman of the Board, Chief Executive Officer of GE Aerospace*

Well, that -- there's a lot of muscle memory built up around just that question, right, which I think is centered on the creditworthiness of any airline, and you could pick a large airline in the West at a developing or emerging market startup, the LCC or ULCC. So that's not something that necessarily started six or eight weeks ago, right? That's an ongoing conversation for us. But I think that we're not so concerned about that, at least with respect to '26. And again, as I showed on one of the slides, I think as we look into '27, given what we know today, we think we'll be up double digits in the aftermarket as well.

But what will happen or what has happened in the past is if there's a restructuring underway, we will work with the airline. If there's a lessor involved, the lessor we'll certainly work with the airline to make sure that there's anything in motion, either off-wing, not getting the shop or inducted that were covered in the short term to make sure we get paid, right? But at the same time, we want to be constructive relative to the restructuring that's underway because at the end of the day, we'd like to see those engines, those planes back in the yard. And we've seen even here recently, evidence that airlines can go through that process and come out on the other side flying those engines. And again, more often than not, given that we fly three corners of commercial departures on a daily basis, those are going to be GE Aerospace engines.

If an airline got into a real pickle, right? And it was more of an insolvency situation. Again, in large part because of the role the lessors play, those assets will find a home. And at a time when lift is constrained, what we have seen in the past, and we've seen this even before the most recent environment, those engines, those airplanes find homes, and we think that would continue to be the case both in the narrowbody realm, Doug, and in the widebody.

Now worst case, I think an engine could get parted out. We'll see if that plays out. We've talked in the past about some of these emerging power gen applications that could sponge up some excess if that exists. But given how tight things are, that's not a big concern for us at the moment.

Douglas Harned - *Sanford C Bernstein & Co LLC - Analyst*

I mean, is there any time frame that you worry about? Like as I said, we're not too concerned about next 12 months, but when you look at this as it extends, I mean, are there customers that you deal with and they're going, we go in at these kind of prices and if we have cash difficulties, next year, '27, '28, are we still -- can we plan for that, I guess, is --

H. Lawrence Culp - *General Electric Co - Chairman of the Board, Chief Executive Officer of GE Aerospace*

Yes. Well, again, I think we always try to be on watch with respect to credits and our credit profile in the best of days and the worst of days. So there's always going to be a top 5, top 10 watch list. Not going to let you know who those names are today. But that -- anybody providing credit is going to do that.

But again, I think with respect to our business, if that were to happen, let's just say, in a relatively benign way of restructuring, it's hard to think that you're going to have many of those before the back half of next year or in the '28. Or you say 12 months, some people say 18. I don't think I can put the dart right on the bull's eye, but it's -- I think it's out there a good ways.

Douglas Harned - *Sanford C Bernstein & Co LLC - Analyst*

One of the things we've looked at this and tried to model, what did I mean to say for CFM56. What we have at least estimated is demand that's well in excess of kind of the 2,300 or so shop visits you have, which has the effect of pushing that shop visit profile out to be kind of stable at least through 2030, which is a long way. And so that's kind of what I'm getting at is do we see -- because to get a high multiple and everything, people are looking toward that, right?

H. Lawrence Culp - *General Electric Co - Chairman of the Board, Chief Executive Officer of GE Aerospace*

Sure, sure. And we understand that. Again, part of what we wanted to do with these prepared remarks and just remind everybody, we're more than just in CFM56, right? We're more than just a commercial play.

But that said, we've talked about relative stability in the 2,300, 2,400 range in terms of shop business for the CFM56 through '28 with a slight fade with content and price picking up any volume pressure which gets you to that profit equivalency with LEAP in 2030. Is that a conservative assumption on our part? I Mean we have gotten wrong the CFM56 peak the last couple of years because we keep pushing it out. I think we're trying to --

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Douglas Harned - *Sanford C Bernstein & Co LLC - Analyst*

Well onetime the peak was supposed to be 2016. So we sort of made it through that.

H. Lawrence Culp - *General Electric Co - Chairman of the Board, Chief Executive Officer of GE Aerospace*

Well, that's where your experience predates my own. I just speak to more recent times. But that -- I think as long as that continues to be the workhorse and there is demand given what the airlines are trying to achieve globally, we're well positioned.

Douglas Harned - *Sanford C Bernstein & Co LLC - Analyst*

So if you go to the place where the demand is extremely high, which is on the LEAP side, and -- so when you look out toward 2028, 2029, you're -- at least as we understand that you're doing a lot of work to more time and materials contracts, different kinds of contract structure, should we be able to see those LEAP aftermarket margins start to approach CFM56 type levels in that timeframe?

H. Lawrence Culp - *General Electric Co - Chairman of the Board, Chief Executive Officer of GE Aerospace*

Yes. I think what we've said, Doug, is in the aftermarket, we went profitable in '24. There's a lot of goodness to come from the doubling of that installed base and that 25% compounded growth rate around shop visits. Just -- it's not only the volume per se, but it's what FLIGHT DECK allows us to do, right? We just get that many more reps to reduce the excess cost, be it labor, be it material, be it overhead in the completion of their shop visits.

And at the same time, as we build a third-party network, that profile becomes more spare parts as opposed to spare parts and the work that we do in our own operations.

Repair, again, will become a more important part of our cost structure. And when we talk about repairs, what we love about repairs is it only gives us, frankly, a lower cost bill of material, it frees up capacity that allows us to ramp because if we can repair a part rather than use a newly made part, that newly made part can go into a new engine, it can go into a shop visit or maybe we don't have that repair option.

And that's all before we talk about beginning to see the benefit of the price moves that we've made, particularly, we've gone post launch. I mean you go back to the mid-2010s, we were in the process of launching LEAP. We did a number of things that you always do when you launch. Coming out of the pandemic, there was a desire on the part of customers, understandably the relaunch. We didn't necessarily do that.

But we haven't seen, given the long tail nature of some of these contracts, seeing the full benefit of some of that price action.

So we really like where we're headed with LEAP, a lot of work certainly in front of us. But to think that in 2030, we could have a profit pool around LEAP akin to where we are with the CFM56 in that same time period. We think that's a pretty exciting part of the value proposition for investors at GE Aerospace.

Douglas Harned - *Sanford C Bernstein & Co LLC - Analyst*

Now if we go over to the OE side, you mentioned if you can do more repairs, you have more parts available for OE. Can you update us on the outlook for OE deliveries right now?

H. Lawrence Culp - *General Electric Co - Chairman of the Board, Chief Executive Officer of GE Aerospace*

Yes. Well, I think we feel pretty good about where we are in that regard. We were up about 63% in the first quarter with respect to LEAP deliveries. Widebodies were up over 25% with the GEnx, which is really the growth vehicle there, up even more. Again, I think that, that's not something we can take exclusive credit for.

You had my friend, John, plan up earlier. The last couple of years, we've really tried to move away from what I would describe as a bit of an industry paradigm at times, where folks like to finger point and negotiate in public. I have never seen in my career that unlock real capacity, particularly at a time of post-pandemic stressors that are out there. So we've used FLIGHT DECK, and we've gone in with some great partners like [Howmet] to really make sure we've got our best people at the stove face on the shop floor, identifying where those bottlenecks and constraints exist in doing everything we can, both short and long term to address those. It doesn't mean we're not writing checks for CapEx, right, to make sure we've got adequate physical capacity over the medium to long term.

But here and now to support Kelly, who was just up here, Airbus and others, that is really how the game gets played, and I think one, for us to be able to have, I think, what, eight quarters now where we've been driving continued improvement sequentially in our inputs. Again, from [Howmets] much of the world and from the folks you'll never know, I think is the foundation for us to continue to drive increases in what we're doing with the airframers. We've said that for LEAP, we'll be up 15% this year, that probably looks somewhat modest given the very strong first quarter that we had. But it's not the only thing that we're solving for. And as we look into '27, '28, every platform, every airframer is in a slightly different place.

But make no mistake, we are completely committed to making sure that Kelly and company, Guillaume company and others have everything they need to step forward.

Douglas Harned - *Sanford C Bernstein & Co LLC - Analyst*

Yes. And on Guillaume and company, last year, they were fairly public about -- at Airbus about winning more from CFM. This year, sounds like things have come together. Can you describe how things have evolved?

H. Lawrence Culp - *General Electric Co - Chairman of the Board, Chief Executive Officer of GE Aerospace*

Well, I would -- but I know they still talk about engine manufacturers, just not us, which is good. I think if you look at the evolution of our relationship with Airbus, I give somebody that you know and some of the audience may know Christian Scherer, the recently retired Head of Commercial, a ton of credit. He's just one of the best people I've met in this industry. And Christian said, we have got to get away from the arm wrestling, the negotiating, the finger pointing, you don't get the best of us. And I know in my heart of hearts, we don't get the best of you.

So he set an incredible tone at the top. I'd like to think we met him at least halfway, if not more so. And it just allowed us in an Airbus construct, again, to make sure we weren't posturing, we weren't negotiating. We were problem solving. And there is a fundamental difference when you're in that mode, right?

And it requires a level of trust. It requires a level of transparency, which I really think has helped the organizations. Lars Wagner, his replacement, very committed to operating in that same way.

That said, Doug, we hit a dry patch with a supplier, and we're short some quarter in the future. I'm sure you'll hear about it with attribution. But I think we're in a very different operating mode. That's my point with Airbus today than we were three or four years ago. And again, I give Christian a ton of credit.

Douglas Harned - *Sanford C Bernstein & Co LLC - Analyst*

So can you talk also a little bit about the widebody side, the GEnx, how you're seeing that growth from an OE standpoint? I mean Kelly just talked about rate ramp.

H. Lawrence Culp - *General Electric Co - Chairman of the Board, Chief Executive Officer of GE Aerospace*

Well, we look at where we are today, right, winning over three-fourth of the opportunities on that platform. That's a winning widebody platform without question. We really like where we're positioned in that regard. But a bit like what we were talking about with LEAP earlier, we're going to have to continue to push our output growth. We were up over 25% in the first quarter.

Boeing will take every engine that we can possibly deliver, right?

Douglas Harned - *Sanford C Bernstein & Co LLC - Analyst*

Yes, they want more.

H. Lawrence Culp - *General Electric Co - Chairman of the Board, Chief Executive Officer of GE Aerospace*

Well, they need more, but you go down to Charleston, I have been in Charleston over the weekend. They've got planes with engines that haven't yet delivered. So there's that, but there's no question that we want to make sure in Charleston that they've got an engine every time they're ready to hang, right? It is not just how many engines are delivered in the course of a year, at the shop floor with Scott Stocker, who runs that program down there, another outstanding person. He needs that engine when he needs it, right, not later.

So we are working with the supply base. I was on with one of the critical suppliers fact myself this morning, making sure that we're getting all the right engineering support at Yamba, where the real work gets done to be in a position to step up because Boeing wants to step up down in Charleston, not only in terms of the current footprint, but what's coming online. And obviously, we want as many of those deliveries as we can muster.

Douglas Harned - *Sanford C Bernstein & Co LLC - Analyst*

When you look at where demand sits right now, both on OE and aftermarket, I think it's unusual when you look at history to see each of those growing so strongly. Then when you go down into your supply chain, including the people we've never heard of down there, does this combination of demand on both sides add to the stress that you have?

H. Lawrence Culp - *General Electric Co - Chairman of the Board, Chief Executive Officer of GE Aerospace*

Without question. Without question, because it's stressful for at least two reasons to come immediately to mind, Doug. One is just the sheer volume. The other is suppliers large and small in the aerospace supply chain. I've always second guest, right, various forecasts.

The OE build rate is not the only out-year number they need to focus on because the aftermarket is so important, and that's been part of the post-pandemic calibration in my mind.

But they've got to believe it. And it's easy to say, I don't believe, I'm going to bet against that. Thus, I'm not going to do the best. I won't put capital in over the medium term. I'm not going to bring labor in, in the short term.

I mean I bring inventory in.

So a good bit of what we've done has not only been in terms of that technical collaborative problem solving, but just building trust, building transparency so that everybody understands what we're trying to do. We've had some suppliers who have said, well, I don't believe the Boeing ramp rate. And frankly, what we've said is, let us relieve you of that. You don't have to believe it. We believe it, this is what we need, and we'll make proper arrangements.

But by the way, keep in mind that we might need a particular part, but we don't only need it for the Boeing ramp rate. We also need it in the aftermarket. So detach yourself from your mono focus on Boeing or an Airbus announced production ramp rate, understand what we're trying to solve for in the aftermarket, particularly with these installed bases doubling and more so. So it's been a significant exercise to build that trust, not always, frankly, a GE Aerospace forte. But also to be transparent, so that they can plan as we plan.

Douglas Harned - *Sanford C Bernstein & Co LLC - Analyst*

Yes, because you can't -- given the breadth of the supplier universe, you can't let them all come up with their own forecast for what Boeing is going to do because it just takes one to cause a problem. But how -- one of the things I know you focused on has been trying to at least dual source on many things, which probably gives you flexibility in that regard.

H. Lawrence Culp - *General Electric Co - Chairman of the Board, Chief Executive Officer of GE Aerospace*

It gives us flexibility, but you could end up having the same conversation twice, right? And if we need 100 of something, it -- there's certainly benefits to getting 50 from Party A and Party B, but it's really that simple, right? And some people are willing and able to invest in a moment like this, in a moment of scarcity and others, particularly given the situation in the Gulf for the last two months, anxious. And that might give them legitimate pause or at least something to hide behind. And what we've tried to do is just to make sure that everybody understands we are all in on these skylines.

We were all in on the idea that our aftermarket growth is going to be in the double-digit range through the medium term. And the installed base has continued to grow. If we continue to see the evolution of the content and the shop visit for the LEAP, for the nx as they mature, there's just a lot of demand that we, as an industry, need to be in a position to serve. Let's not arm wrestle over that, let's jointly problem solve the short-, medium- and long-term requirements and get after it.

Douglas Harned - *Sanford C Bernstein & Co LLC - Analyst*

Now looking forward, the RISE program is one that you all have been very focused on. Can you comment on how that's progressing in terms of, I'd say, both time line and how airframe OEMs are thinking about it?

H. Lawrence Culp - *General Electric Co - Chairman of the Board, Chief Executive Officer of GE Aerospace*

Yes. Well, just maybe to level set everybody, when we talk about RISE, we're really talking about our technology as opposed to product development program for the underlying components of, in all likelihood, the next-generation narrowbody engine. There really are four keys here. One is an open fan architect -- excuse me, three keys. One is an open fan architecture.

The second is a common core. And the third is hybrid electric capabilities. There's a fourth pillar there, in alternative fuels, but let me just focus on the first three.

Doug, I've been up to the GRC, our Global Research Center probably twice in the last three or months or so, in deep with the team. We continue to make progress on the component and the subsystem and the system developments. They really undergird all three of those.

We will talk about ground tests and flight tests later this decade as we continue to move forward. The airframers are well aware of where we are. We've been bringing airlines in as well to make sure they understand where we are with these efforts. And I think what's really neat is it wasn't that long ago when anyone -- almost anyone who came to talk to us focus on sustainability. Now you could argue that the industry has always talked about sustainability because it's fundamentally fuel efficiency, true, but it had a sustainability bet.

Today for understandable reasons, customers have evolved to a much greater focus on reliability, durability, making sure that when they need the engines to go that they're good to go.

What we've been able to, I think, help people understand with the open fan architecture, it's not just an efficiency play with the higher bypass ratio that you get from the unducted architecture. There's clearly a step function improvement in efficiency. But because you're putting less stress on the core, the hot section of the engine, which is where all the wear and tear takes place over time, you not only get that efficiency benefit, we think there's a significant durability and reliability benefit to be had as well as my friend Jim Collins would say, it's the genius of the hand, it'll work. You don't have to trade one for the other. With the open fan architecture, with the advances and what we've been able to do with the common core.

And a little bit of hybrid electric thrown in, we think that, that's a winner.

The second part of your question in terms of timing, the airframers are trying to take care of today and tomorrow. I think they are all working on what comes next in terms of the future flight in terms of the next-generation narrowbody, but when you hear people talk about time frames and we'll let them speak to their own specifics, it tends to be in the latter part of the next decade. That -- they will -- those are big decisions that they'll make, we simply want to be ready with the best possible technology under wing to make sure we perpetuate our industry leadership, and that's really at the end of the day what RISE is all about.

Douglas Harned - *Sanford C Bernstein & Co LLC - Analyst*

Can you give us any sense when you're in discussion with the airframers, how they view this? Because it requires a lot of differences in the aircraft itself. How do they talk to you about it?

H. Lawrence Culp - *General Electric Co - Chairman of the Board, Chief Executive Officer of GE Aerospace*

Well, I think they understand that we're going to need to have somewhat like what we were talking about earlier in terms of just the near-term ramp rate mode of working, we're going to need to be much more collaborative as we think about the integration of an open fan architecture and the aircraft, particularly on the wing. And when we get into that, and we've done some incredible modeling down at Oak Ridge on the Genesis supercomputer. And we think that's kind of differentiated capabilities from a development perspective. What we're able to do in concert with the airframers from a wing perspective, really is quite powerful. Again, that integration will help us drive both efficiency gains and we think, ultimately, aftermarket maintenance support.

Douglas Harned - *Sanford C Bernstein & Co LLC - Analyst*

So we jump over to defense. You talked a little bit about it in your opening remarks. I saw a lot up in Lynn, and -- could you tell us a little bit, I mean, you've got you're saying, I think, growth, mid- to high single-digit growth. But your book-to-bills have been particularly strong over time. I mean how are you viewing this as -- I mean it's $12 billion today.

What's the growth trajectory you're looking at now?

H. Lawrence Culp - *General Electric Co - Chairman of the Board, Chief Executive Officer of GE Aerospace*

Well, I think if we continue to build that backlog, right, and we continue to use FLIGHT DECK to get that backlog out the door which is why we wanted you and others to come up to Lynn to see the progress we've made in a facility where we have been operating for over a century. That put -- that gives us the opportunity to be in that high single-digit range. We just know that demand is there. And that's before we talk about anything by way of an uptick in sustainment. I mean we know we support all the platforms being currently used in various hotspots around the world.

We haven't really seen that uptick. I think other than maybe on the Eurofighter yet. But come the '27 budget, we think they'll need to be a nice uptick in sustainment. And that is again, at a high single-digit rate really before we see real traction with the sixth generation platforms. Thrilled the President went ahead with the F-47, very keen to see how the NGAD program evolves to support the F-47.

A number of you, I'm sure, saw the Chief and Naval operations, talk about the Navy heading towards a decision on the FAXX this August. A lot of what we've been doing with the AX100. More recently, RXA102, our adaptive cycle engine, both from a design readiness review, which we completed last year, the assembly readiness review that we completed here recently, we think positions us well. Now you never know until you know, right? But as these sixth generations for the Air Force and Navy come forward, we're optimistic that we'll be in a position to participate.

Douglas Harned - *Sanford C Bernstein & Co LLC - Analyst*

And is there any time frame where you might expect this heightened op tempo in the Middle East to come through and affect your defense?

H. Lawrence Culp - *General Electric Co - Chairman of the Board, Chief Executive Officer of GE Aerospace*

I think we're saying, let's see the '27 budget as opposed to something that's going to happen in the next six to eight weeks. We'd love to be surprised, but...

Douglas Harned - *Sanford C Bernstein & Co LLC - Analyst*

Okay. Yes. And then certainly, operations in Avio are important in Italy, but can you give us also a little bit of a picture of growth on the international side relative to that overall growth rate? Is it faster or --

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H. Lawrence Culp - *General Electric Co - Chairman of the Board, Chief Executive Officer of GE Aerospace*

Well, it will be at least in that high single-digit range, and it could uptick again. We don't talk much about defense. We certainly don't talk about our international defense business, which represents about one-third of our revenues there. But these indigenous programs really around the world have been wonderful opportunities for us just because the F110 in particular has been such an engine of choice. So you've got Sweden, you've got South Korea, you've got Turkey, you've got India, I'm sure I'm missing a couple, I don't mean to do so, looking to GE propulsion underwing as they put together not only their own local fighter aircraft capabilities, but ramp those production lines as well.

So we feel very optimistic about where we are internationally, both in terms of the FMS channel, but also what Avio allows us to do in Europe, not only in terms of technologies that Avio is bringing to market, GCAP and the rest, but frankly, things that we might be able to work on in between in Europe with US technology that Avio can bring into the continent.

Douglas Harned - *Sanford C Bernstein & Co LLC - Analyst*

One of the other pieces you have now on the defense side is your aero derivative business. We had Steve and [everyone else] here this morning. John Plant talked about their ITT work is hot area. Can you comment a little bit about how significant that is for GE right now?

H. Lawrence Culp - *General Electric Co - Chairman of the Board, Chief Executive Officer of GE Aerospace*

Sure. Well, I think that if you go back a few years, we really set Scott and company up and they've been doing a phenomenal job for that to really be the GE play in power gen. But just given the way things have taken off, there have been some innovative companies, new entrants that have said, can we repurpose the CFM56 in particular, we're going to support that. That's still evolving. So I wouldn't say that we have a completely baked strategy.

But if there are opportunities for folks to repurpose those platforms, particularly at this stage in the life cycle, that's all good news for GE Aerospace, right, because that will allow us to extend the life -- useful lives of those assets, we'll provide parts into those applications, and that will soak up, we believe some of what may come as we get past '28, like your framework past 2030, if there's an excess of supply given retirement. We'd rather repurpose and retire, of course.

Douglas Harned - *Sanford C Bernstein & Co LLC - Analyst*

Yes. I was thinking some of your aero derivative that in-house, I mean, you do -- your kind of designed for aero derivative engines as well.

H. Lawrence Culp - *General Electric Co - Chairman of the Board, Chief Executive Officer of GE Aerospace*

Yes. Supplying both Vernova and Baker Hughes, our -- one of our GE cousins. So -- and we really like the idea of putting it with Amy Gowder and the defense team because it's more like their marine business than it is the commercial aero business. So we moved it really just, frankly, for better coherence operationally inside of the company. It changes a little bit of the profile.

It's a bigger part of DPT than it would have been the commercial segment. So we end up talking about it a little bit more. But given what's happening in power gen with all things AI, it's all good by us.

Douglas Harned - *Sanford C Bernstein & Co LLC - Analyst*

So I think I ask you this question every year. But when you look at the landscape out there, I mean, GE's business is centered on propulsion. You have some other things now, systems and -- do you look at -- do you think about potential for expansion into more system and equipment-oriented businesses like a long time ago was done with Smiths?

H. Lawrence Culp - *General Electric Co - Chairman of the Board, Chief Executive Officer of GE Aerospace*

Yes, a long time ago. Well, Doug, I'd be lying to you if I said I didn't think about it. 25 years at Danaher, we looked at a lot of things, deployed a lot of capital. But the GE Aerospace setup, I think, is fundamentally different. And I sit here today just reinforcing what we have said in the past in terms of our capital allocation priorities.

We know we're in a fortunate position. We're going to throw off a lot of cash. That will more than cover what we need to support that $3 billion of annual R&D spend and anything that we might need from a CapEx perspective as we think about the ramp. We will put a lot of capital back to shareholders. We think that's just part of our value proposition for this group.

But there will be opportunities for us to do things. But I don't think we're looking to be all things to all people. That's just not who we are. If you look at what we did, we put $200 million of equity capital into Beta Technologies, an outstanding leader in Kyle Clark, we think, a highly innovative company focused on some applications in the near term that will fly. We've done some smaller things in and around DPT as well.

So we're going to look to fortify our existing positions, first and foremost before we go far afield. That's -- I think that's served us well thus far, and there's plenty of opportunity for us to stay close to the core, I think, as we look at the foreseeable future.

Douglas Harned - *Sanford C Bernstein & Co LLC - Analyst*

Okay. With that, let's wrap up. But thank you, Larry, very much.

H. Lawrence Culp - *General Electric Co - Chairman of the Board, Chief Executive Officer of GE Aerospace*

Thank you, Doug. Thanks, everyone.