GE Aerospace

Edited Transcript

Q4 2025 GE Aerospace Earning Call

CORPORATE PARTICIPANTS

Blaire Shoor *GE Aerospace - Director, Investor Relations*

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

Rahul Ghai *GE Aerospace - Chief Financial Officer, Senior Vice President*

CONFERENCE CALL PARTICIPANTS

John Godyn *Citibank Cameroon SA (Douala Branch) - Analyst*

Myles Walton *Wolfe Research LLC - Analyst*

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

Scott Deuschle *Deutsche Bank AG - Research Analyst*

Sheila Kahyaoglu *Jefferies LLC - Analyst*

Seth Seifman *JPMorgan Chase & Co - Analyst*

Ronald Epstein *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Gavin Parsons *UBS AG - Analyst*

Noah Poponak *Goldman Sachs Group Inc - Analyst*

Gautam Khanna *Cowen and Company LLC - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the GE Aerospace fourth-quarter 2025 earnings conference call. (Operator Instructions) My name is Liz, and I will be your conference coordinator today. (Operator Instructions) As a reminder, this conference is being recorded.

I'd now like to turn the program over to your host for today's conference, Blaire Shoor from the GE Aerospace Investor Relations team. Please proceed.

Blaire Shoor - *GE Aerospace - Director, Investor Relations*

Thanks, Liz. Welcome to GE Aerospace's fourth quarter and full year 2025 earnings call. I'm joined by Chairman and CEO, Larry Culp; and CFO, Rahul Ghai.

Many of the statements we're making are forward-looking and based on our best view of the world and our businesses as we see them today. As described in our SEC filings and website, those elements may change as the world changes. Additionally, Larry and Rahul, consistent with prior quarters, will speak to total company and corporate financial results and guidance on a non-GAAP basis. Now over to Larry.

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

Blaire, thanks, and good morning, everyone. I'd like to begin with our purpose. We invent the future of flight, lift people up and bring them home safely. Right now, nearly 1 million people are in flight with our technology underwing, connecting people and goods worldwide. We play a vital role in powering the war fighters, who defend freedom.

LSEG DATA & ANALYTICS

And while we work to deliver for our customers today, we're also inventing technology that will propel the industry forward tomorrow. Our purpose is our call to action, and I couldn't be prouder of what our team achieved in 2025, but also how we got there with our culture of respect for people, being customer-driven and continuous improvement.

Turning to our results on slide 4. 2025 was an outstanding year for GE Aerospace as we made operational progress, delivered on our financial commitments and continue to invest in our future. The fourth quarter was a strong finish to the year. Orders were up 74%, reflecting continued robust demand for our services and equipment. Revenue increased 20% with double-digit growth in both segments.

EPS was up 19% to $1.57 and free cash flow grew 15%. For the full year, we drove substantial improvement across all key metrics. Orders were up 32%, revenue increased 21%, operating profit grew $1.8 billion and free cash flow was up $1.5 billion. In CES, orders were up 35% and revenue grew 24%, including services orders up 27% and revenue up 26%.

This supported our profit growing 26% to $8.9 billion. In DPT, orders increased 19% and revenue was up 11% with increased deliveries in Defense. Profit increased 22% to $1.3 billion. Our performance reflects the impact of FLIGHT DECK, driving incremental gains that compounded into meaningful improvements. This enables us to accelerate output to deliver on our roughly $190 billion backlog, which is up nearly $20 billion over the last year.

We are also investing to improve time on wing and reduce cost of ownership to deliver value to our customers, supporting growth today, tomorrow and into the future. I want to thank the entire GE Aerospace team, our suppliers and our customers who put their trust in us.

Looking to 2026, we're poised for another year of substantial revenue, EPS and cash growth. Demand remains robust with 2025 orders up 32% and continued backlog growth. This supports our expectation for revenue to be up low double digits, including commercial services up mid-teens.

We expect operating profit of $9.85 billion to $10.25 billion, up $1 billion at the midpoint. This translates to EPS of $7.10 to $7.40, up nearly 15% at the midpoint. And we expect to generate $8 billion to $8.4 billion of free cash flow with conversion remaining well above 100%. This outlook builds on the progress we made in '24 and '25.

We expect to deliver mid-teens revenue growth between '24 and '26 compounded and $10 billion of profit in '26 two years earlier than our outlook has been. We continue to convert this into cash, expecting to generate more than $20 billion of cash between '24 and '26 to reinvest in our future, including in US manufacturing to support both our commercial and defense customers.

GE Aerospace is an exceptional franchise, servicing and growing the industry's most extensive installed base of 80,000 engines. As we further embed FLIGHT DECK, we'll unlock greater value for our customers and shareholders.

Turning to slide 6. In their first year, our technology and operations or T&O team made a meaningful impact. We partnered more effectively with our suppliers, resulting in material input from our priority suppliers growing over 40% year-over-year in 2025 and up double digits sequentially in the fourth quarter, both translating to higher outlooks.

While we're making progress, we know our customers need more from us. To further accelerate our progress in 2026, we're expanding CES to include T&O now led by Mohamed Ali. Integrating our front-line engineering and supply chain teams will improve our end-to-end engine life cycle management.

We're also elevating our customer-facing teams, led by Jason Tonich, now reporting directly to me, aligned with our customer-driven approach. These changes will enable greater cross-functional problem-solving, agility and alignment to deliver for our customers. I also want to take a moment to thank Russell Stokes, who announced to retire from GE Aerospace in July after 29 years of service. His continuous improvement mindset and passion for developing leaders to help build this world-class business.

Russell was one of the first leaders I met here at GE, and he's been a critical partner over the last seven years. We wish him nothing but success in his next chapter. These changes, along with FLIGHT DECK will further support growth in deliveries in '26. Across our MRO network, we are removing waste to improve shop visit output and turnaround times.

For example, we're converting from batch to flow production, which supported LEAP CFM56 and GE90 turnaround times, improving over 10% year-over-year in the fourth quarter. Additionally, at our Wales facility, CFM56 turnaround time improved by 20%. And at [SOMA], we sustained turnaround times below 80 days.

This enabled us to deliver our highest LEAP shop visit output of the year. With LEAP installed base is expected to roughly triple between '24 and '30, we're expanding capacity across our global MRO network to support aftermarket demand.

In 2025, we added MTU Dallas is our sixth premier MRO partner, supporting third-party shop visit growth, now representing around 15% of total LEAP shop visits. We're dedicating approximately $500 million of our more than $1 billion of investment in MRO to LEAP. This includes exceeding several MRO sites, including Malaysia, Selma and Dallas and a new on-wing support facility in Dubai.

We expect these investments will roughly double LEAP internal capacity. Taken together, these actions drove meaningful progress in services and equipment output in 2025. CES services revenue increased 26% with internal shop visit revenue up 24% and including LEAP internal shop visit volume up 27%.

Spare parts revenue grew more than 25%. Deliveries across commercial and defense increased 26% for the year, including a strong finish with 8% sequential growth in the fourth quarter. Commercial units increased 25%, including LEAP up 28%, exceeding 1,800 units, a record output for this program. And defense engine deliveries increased 30%. While 2025 marked a year of progress, we know there is more to do to meet customer demand. And I'm confident we will deliver.

Turning to slide 7. One of the behaviors that guides us is to be customer-driven all that we do. We're leveraging over $2.3 billion flight hours and nearly $3 billion in annual R&D to drive meaningful improvements for our customers. Our focus remains on delivering mature levels of time on wing and lowering cost of ownership.

In November, the GEnx fleet leader equipped with the upgraded HPT blade, which has improved time on wing over 2.5 times in hot and harsh environments, achieved a new milestone, surpassing 4,000 cycles. Informed by our progress with the GEnx, the LEAP-1A durability kit will improve time on wing by more than 2 times, matching our industry-leading CFM56 performance. This is now incorporated in all LEAP-1A, new engine deliveries and shop visits with nearly 1,500 kits shipped since certification.

In addition to improved durability, we're also expanding our pair catalog, which will lower cost of ownership and improve turnaround times. In '25, LEAP parts certified repair increased 20%, and we expect continued growth in '26. Combined with our progress on delivery, we're actively working to meet customer expectations on LEAP.

At the same time, utilization of our mature engines remains robust. CFM56 is the most widely owned and operated engine in commercial aviation with retirements in '25 consistent with '24 levels. The third-party MRO ecosystem provides customers with optionality for servicing their fleets, supporting higher asset values and lowering cost of ownership.

And we continue to strengthen MRO access to OEM materials to support further CFM56 longevity. Last quarter, for example, we reached a materials agreement with Aviation to support service of its growing fleet of CFM56 engines. We're also progressing the next generation of engines. We recently completed a ground test campaign demonstrating our first hybrid electric narrowbody engine architecture. This first-of-its-kind milestone demonstrates systems integration, advancing the technology from concept to practical scalable application.

As we deliver greater customer value and advanced breakthrough technologies, we're growing our backlog. At the Dubai Airshow, we've recorded over 500 engine wins across narrowbodies and widebodies, including Riyadh Air's commitment for 120 LEAP-1A engines and flydubai's selection of 60 GEnx engines.

Additionally, Pegasus Airlines committed to up to 300 LEAP-1B engines to power its future Boeing 737-10 fleet. And we're honored that Delta, a new GEnx customer selected us to power and service their new fleet of 30 Boeing 787s. In Defense, Hindustan Aeronautics ordered 113 F404 engines for our Tejas fighter jets, demonstrating our position as a trusted partner for Allied Fighter programs.

Overall, we're driving progress, improving field performance, turnaround times and advancing future propulsion technologies. We're well positioned to strengthen our leadership across both the commercial and defense sectors in 2026. Rahul, over to you.

Rahul Ghai - *GE Aerospace - Chief Financial Officer, Senior Vice President*

Larry. Thank you, and good morning, everyone. We closed out 2025 with another strong quarter. Fourth quarter orders were up 74% with CES up 76% and DPT up 61%. Revenue was up 20%, led by CES services up 31%. Operating profit was $2.3 billion, up 14%. Services volume, productivity and price were partially offset by the impact of lower spare engine ratio, OE growth, including 9X shipments and investments.

Margins as per prior guidance were down 90 basis points to 19.2%. EPS was $1.57, up 19% from increased operating profit, a lower tax rate and a reduced share count. Free cash flow was $1.8 billion, up 15%, largely driven by higher earnings with over 100% conversion. For the year, our results exceeded the high end of our guidance on all key metrics.

Orders were up 32%, with commercial services orders up 27% and total equipment up 48%. Revenue increased 21% from commercial services that was up 26% and higher deliveries of both commercial and defense units. Operating profit increased 25% to $9.1 billion, with margins expanding 70 basis points to 21.4% as commercial services volume and price offset OE growth and investments.

EPS increased 38% to $6.37. Free cash flow grew 24% or $1.5 billion to $7.7 billion with conversion over 110%, driven by earnings growth and continued contract asset favorability, which was partially offset by inventory growth to support continued output increases in 2026. Overall, a very strong performance for GE Aerospace, positioning us well for 2026.

Turning to our segments, starting with CES. In the fourth quarter, orders were up 76% with services up 18% and equipment more than doubling. Revenue increased 24%. Services were up 31%, internal shop visit revenue grew 30% from higher volume and increased work scopes. Spare part sales were up over 25% as improved material availability supported increased output. Equipment revenue grew 7%, with engine deliveries up 40%, including LEAP, up 49%. This more than offset a decline in spare engine ratio due to timing of back-end loaded spare engine deliveries in 2024.

For the year, spare engine ratio was lower than '24 as planned. Profit was $2.3 billion, up 5% from higher services volume with improved margins, price and favorable mix. This was partially offset by the impact of lower spare engine ratio, higher installed shipments, including 9X and an increase in R&D. As expected, margins were down 420 basis points to 24%.

For the year, CES delivered outstanding results with orders growing 35% and services revenue and engine output, both up roughly 25%. This supported profit growing 26% to $8.9 billion and margins expanding 40 basis points to 26.6% from services growth, productivity and price.

Moving to DPT. Orders were up 61%, with defense book-to-bill above 2. Revenue grew 13%. Defense and Systems revenue was up 2%. Defense units were down 7% due to a difficult compare which was more than offset by price and customer mix.

Sequentially, this was the third consecutive quarter of strong defense engine shipments with full year deliveries up 30%. Propulsion and Additive Technologies grew 33%, led by higher commercial and military volume at Avio. Profit was up 5% from volume, favorable mix and price that was partially offset by investments and inflation. Margins were down 70 basis points to 8.9%.

DPT also had a solid year with orders up 19% and defense book-to-bill 1.5, with backlog now at $21 billion, up nearly $3 billion. Improved output supported revenue growing 11%. Profit was $1.3 billion, with margins up 110 basis points to 12.3% from volume, mix and price. Going deeper into the drivers of our 38% EPS growth for the year.

Growth in operating profit drove $1.32 or 75% of the improvement in EPS. With the increased profit in CES and DPT, partially offset by higher corporate costs and eliminations. Corporate cost was roughly $570 million, up about $170 million due to lower interest income. Eliminations were about $530 million, up approximately $70 million.

Lower tax rate, a reduction in share count and interest expense accounted for an additional $0.46 of EPS growth. Tax rate was down 3 points for the year, primarily from the benefits of long-term tax planning projects and share count reduced by $26 million.

Turning to slide 12. We are updating our segment reporting to reflect the organizational changes announced last week. Importantly, there is no change to total company metrics. Aero derivative engines, which were previously reported in CES will be included with DPT to drive better supply chain alignment with the Marine and Mobility business.

As a result, roughly $1.4 billion of revenue and a couple of hundred million dollars of profit will move from CES to DPT. With the expansion of CES to include T&O, we are also transitioning the cost of remaining sites and external engineering revenue to their respective businesses. This results in a small change to corporate cost and eliminations.

The resegmentation impact is reflected in the 2025 segment financials on the left side of the page. We've also included a preliminary bridge in the appendix and plan to provide recasted segment financials for first quarter earnings.

Turning to guidance. Starting with CES. We expect mid-teens revenue growth, including services up mid-teens. This includes internal shop visit revenue and spare parts revenue both up mid-teens, from low double-digit engine removals combined with higher work scopes and price.

LEAP internal shop visits are expected to grow 25%. We expect equipment up mid- to high teens, including LEAP deliveries up 15% with higher growth from widebody programs. We expect $9.6 billion to $9.9 billion of profit, up about $1.2 billion at the midpoint. This reflects the benefit of services growth and price which is partially offset by OE growth, including 9X, a lower spare engine ratio and continued investments.

In DPT, we expect mid- to high single-digit revenue growth and profit of $1.55 billion to $1.65 billion. Higher deliveries will be partially offset by inflation, mix and investments. Corporate costs and eliminations are up year-over-year to $1.2 billion to $1.3 billion from lower interest income, AI investments and higher eliminations from internal PAT growth.

In total, we expect low double-digit revenue growth for the company with profit in the range of $9.85 billion to $10.25 billion, up $1 billion or more than 10% at the midpoint. Further unpacking the drivers of EPS and free cash flow growth. We expect EPS in the range of $7.10 to $7.40, up nearly 15% at the midpoint.

About 85% of the improvement will be from higher operating profit. The balance will be from a marginal improvement in the tax rate to below 17% and a reduction of 18 million shares from our previously completed and announced capital allocation actions.

Interest expense is expected to be roughly $900 million. We expect to generate $8 billion to $8.4 billion of free cash flow, primarily from higher earnings. Working capital and AD&A combined will be a source year-over-year from slower inventory growth. We continue to expect CapEx at roughly 3% of sales.

Overall, we expect another year of conversion solidly above 100%. Taken together, GE Aerospace is poised for another year of solid growth ahead. With that, Larry, back to you.

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

Rahul, thank you. 2025 was another outstanding year. Our sustained competitive advantages support our leadership positions across both commercial and defense. With the industry's largest fleet, 80,000 engines and growing, we've accumulated over 2.3 billion flight hours.

This experience keeps us close to our customers through decade long life cycles, building enduring relationships and making us the partner of choice.

This field experience combined with our nearly $3 billion in annual R&D investments allows us to drive continuous improvement across our services and products, enhancing time on wing and lower cost of ownership. As a result across our narrowbody, widebody regional and defense platforms, we offer the best performing products underway.

Our world-class engineering teams developed next-gen technology to improve durability, efficiency and turnaround times, along with advanced defense capabilities. Through FLIGHT DECK, we're turning strategy into results with a focus on safety, quality, delivery and cost always in that order. Stepping back, the GE Aerospace team is focused and ready for what's ahead in 2026. We're well positioned to deliver for our customers and shareholders, and I'm confident in our trajectory.

With that, Blaire, let's go to questions.

Blaire Shoor - *GE Aerospace - Director, Investor Relations*

Before we open the line, I'd ask everyone in the queue to consider your fellow analysts and ask one question so that we can get to as many as possible. Liz, can you please open the line?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

John Godyn, Citigroup.

John Godyn - *Citibank Cameroon SA (Douala Branch) - Analyst*

Hey, thanks for taking my question. I was hoping you could elaborate a bit on the commercial aftermarket backdrop. Obviously, it was a great services quarter with revenue growth accelerating versus last quarter. So I'm just curious to what extent this momentum has carried through to start the year?

And if you could just unpack some of the assumptions underlying the mid-teens services growth guidance for 2026. Is there any room there to outperform if recent momentum continues? Thank you.

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

Well, John, thanks for getting us started. I would say we haven't seen anything here at the beginning of the year that gives us pause relative to the tailwinds, the momentum that you referenced continuing, right? We've all seen Delta and United out in the last week, for example, I think talking confidently about 2026.

So when you couple their outlook, the fact that we come in the year with $190 billion of backlog. We know our share of cycles with LEAP in particular, the narrowbody segment being up and the opportunities to leverage that underlying unit volume in the aftermarket with both expanded work scopes in both narrow and widebody as well as price. We feel like we have another very strong commercial services year supporting the aftermarket.

Again, I think as we commented in the prepared remarks, at a rate that should be up mid-teens. Will we be able to do better than that? We're certainly going to aim to do that, but as we talked through the course of 2025, we're not -- I think, particularly concerned about the demand environment.

It's really all about our ability to move spare parts out to third parties to complete our own internal shop visits. And while we were pleased with the sequential and the year-over-year numbers that we cited in the fourth quarter, there's much more to do here in 2026.

It's a bit of what undergirds the organizational move that we announced. And to the extent that we can continue to make progress, and we think we will perhaps not in line with the 40% bump we saw from our priority suppliers last year on a full year basis, I think we'll be able to satisfy that demand better than we did in 2025. Rahul, anything you'd add there?

Rahul Ghai - *GE Aerospace - Chief Financial Officer, Senior Vice President*

Yes. Just a couple of things. John, welcome to our call here. Just as we said in our prepared remarks, we expect both shop visits and spare parts to be up kind of in the same range as mid-teens as the overall services growth. On spare parts first, our delinquency when we ended 2025 was up 50% over where we ended '24.

So as Larry mentioned, strong demand environment. And as you think about the spare parts growth, the spare parts growth is going to be primarily driven by narrowbody. And that's coming as a LEAP external channel continues to grow and about more than 15% of the LEAP shop visits are now performed by a third-party channel partner.

And CFM56 continues to be strong as well. Larry mentioned in his prepared remarks about how we ended '25 retirements which were similar to '24. And as we think about 2026, we expect retirements to be in the 2% range. Our prior expectations were 2% to 3% range. So trending a little bit better and that puts CFM shop visits in the 2,300 to 2,400 range between '26 and '28.

So external demand environment looks good. Shop visits, the same thing. We're expecting double-digit removals this year from engines that they've already flown, plus the work scope continues to increase a little bit of price. So all that adds to that 15% growth that we mentioned on shop visits. So overall, we feel good about the services outlook for '26.

Operator

Myles Walton, Wolfe Research.

Myles Walton - *Wolfe Research LLC - Analyst*

Hey, good morning. I was wondering on the LEAP breakeven, LEAP profitability on the original equipment side. Are we crossing the root counted profit or breakeven in '26 still? And Larry, you must be feeling a lot better about the trajectory to get output on LEAP to 2,500 by 2028.

What, if anything, is required from an investment within the supply chain, not the MRO network, but more the OE side of the supply chain still to get to where the manufacturers want to production rates (inaudible)

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

Well, Myles, from a new make perspective, and as you know as well as anyone, the supply chain that supports the new make also supports the aftermarket. So no one can really isolate the new make demand and invest for that without being mindful of the aftermarket demand as well.

I think we have improved over the course of 2025, our visibility further out and deeper into the supply chain, further out time wise, deeper in the supply chain with respect to readiness, to satisfy our needs to serve both the airlines and airframers. There will be capital investment in various places.

I'll let different suppliers and different commodity categories speak to their own plans. But I think we're confident that as we move forward here through the rest of the decade, we'll be able to satisfy what the airlines need in the aftermarket and with the airframers looking to do for the airlines as well, right, from a new delivery from a modernization and expansion perspective.

But there's work to do. Again, I don't think we're going to be up 40% every year, not that we have to. But I feel very good that with the body work we put in 2025, we're poised to step up again with the supply base be it process improvement, be it capital expansion and the like to keep pace with these considerable tailwinds that we're all fortunately exposed to.

Rahul Ghai - *GE Aerospace - Chief Financial Officer, Senior Vice President*

And Myles to answer your question on the LEAP profitability, yes, we expect LEAP OE to be profitable in 2026 as per our prior plans.

Operator

Douglas Harned, Bernstein.

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

Good morning. Thank you.

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

Good morning, Doug.

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

You talked about the improvement in turnaround times across the board, like LEAP, CFM56, GE90 by about 10%. And we -- I can see that. But CFM56, GE90, very mature engines. Is this turnaround time improvement, is that both for internal and third-party shop visits? And what levers enable you to do that?

And if I can just add to that, how should we see that improvement reflected in financials since CFM56 is largely time and materials in GE90, you'd be on CSA, I would assume.

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

Doug, it is an internally oriented number, right? We've watched that turnaround time closely at every one of our shops across platforms across the network. The way I think about CAD improvement, it's really driven by two things: one, material availability and two, efficient execution of our standard work on the shop floor.

We've talked a lot about supply chain. You've written about it as well. To the extent that we are getting not only more from our suppliers, but getting what we get in a more predictable way, the teams on the shop floor are better able to execute to bring down turnaround times.

We talked about 3% year-over-year improvement from our priority suppliers. We talked about those suppliers delivering at a 90%-plus level to their commitments, takes a lot of news out of the system.

That is an unlock for us, I think, to take full advantage of the process improvements by way of FLIGHT DECK we've laid into the various shops. It's not equally spread across every shop, but those turnaround times, I think that you see improved in the fourth quarter, for example, really is a combination of better input materials and better execution.

How does that show up in the financials? Well, we should be getting more shop visits completed in terms of the top line, but also we believe it's a considerable productivity unlock. If a team on the floor has to stop a shop visit if they are idle, waiting for a hard delivery, that's obviously unproductive time. If they have everything they need from induction to certification we will see, and I think I have seen the early signs of real productivity bumps there as well.

Operator

Scott Deuschle, Deutsche Bank.

Scott Deuschle - *Deutsche Bank AG - Research Analyst*

Hey, good morning, Rahul, can you quantify what the GE9X headwind ended up being in 2025 and then what the incremental profit headwind is from 9X in 2026? And then if you could comment on the quarterly earnings cadence you're expecting at CES in '26 as well, that would be helpful. So the question is around 9X losses in the earnings cadence.

Rahul Ghai - *GE Aerospace - Chief Financial Officer, Senior Vice President*

Yes. So Scott, on 9X, our losses ended. I mean, we set a couple of hundred million bucks of losses in 2025, and we've ended right about there. So right in line with our expectations. And for '26, as we previously said, we are going to ship more engines in '26 and the volume continues to grow up.

And with that, our losses on the 9X programs will double year-over-year. So our current guidance for '26 incorporates those losses getting to that level. So all consistent with what we've said previously. On the first quarter, and let me just elevate the question a little bit, Scott, and just kind of speak to total company here, including CES.

I mean, first, we expect a solid start to the year. As you probably remember, our output started out slow last year in the first quarter. So we expect our engine and shop visit output to grow substantially here in the first quarter and that will drive our revenue growth. And we expect kind of if you put all that together, the total company level, we expect high teens revenue growth for the company with both CES and DPT above their respective full year guidance. So the stronger start is going to come from both the segments.

And now getting into the CES, services, we ended 25% 27% orders growth. So we're entering '26 with a strong backlog and about 85% of the parts that -- the spare parts that we need to ship in the first quarter are already in the backlog. And then we had a CMO charge in first quarter of last year that we're not expecting to repeat. So it will be a strong start for us business.

And commercial equipment output will be strong, that will drive revenue growth. But if you -- first quarter last year was our strongest spare engine shipment quarter. So there'll be some impact from that here as we think about the year-over-year revenue growth, but still it will be a strong revenue performance despite that.

And then there will be 9X shipments here in the first quarter as well, which we did not have in '25. And then DPT, they're on a good run here on sequential performance. Expect that to continue and that should drive revenue growth for the DPT segment.

Now as we switch to profit, expect that profit to be up year-over-year growth, up year-over-year, primarily from the services growth and the absence of the CMR charge that we took, which will offset the higher deliveries and the 9X shipments. But because of the lower spare engine ratio and 9X shipments, our total margins for the business will be kind of in line to slightly better, versus where we ended fourth quarter of 2025.

And free cash flow we expect certain payments here in the first quarter. So free cash flow will be down year-over-year. But overall, as we think about revenue, we think about profit, we expect to get out of the gate here strong.

Operator

Sheila Kahyaoglu, Jefferies.

Sheila Kahyaoglu - *Jefferies LLC - Analyst*

Good morning, Larry, Rahul. Great quarter. Maybe Rahul, since you were just speaking about CES product guidance for '26. If you could walk us through margins at the midpoint, it implies margins are flat. And you gave a few pieces, the GE9X headwinds. How are you thinking about shipments there?

What are you seeing offset the goodness to help overcome some of the mix issues you're facing with equipped growth outpacing services? 9X headwind, as you mentioned, spares ratio and just LEAP growing double digits while CFM is flat, how do we think about that?

Rahul Ghai - *GE Aerospace - Chief Financial Officer, Senior Vice President*

Yes. I think, Sheila, you kind of outlined some of the key drivers here in the math. I think the margin story at the CES level is exactly the way you said it, strong services growth here, we expect $3.5 billion of services revenue growth in 2026, which drops through at a healthy clip despite LEAP being a bigger share of that growth, we still expect strong drop-through from our services revenue improvement year-over-year.

And then the OE shipments are increasing, the spare engine ratio gradually comes down as we expect it too as time passes on and then 9X shipments and with R&D coming in as well. So I think those are the big drivers for the CES margins here in 2026.

Now keep in mind that the margins ended up better than what we'd expected back when we gave the October guidance. We -- the margins were about 70 basis points better than where we thought we will be in October. So we have a higher jumping off point. And despite that, you see at the -- as you said, our margins are expected to be flattish here in 2026. So we feel good about the trajectory that we're on.

Operator

Seth Seifman, JPMorgan.

Seth Seifman - *JPMorgan Chase & Co - Analyst*

Hey, thanks very much and good morning, everyone, maybe just to continue along that line of questioning. As we think about the headwinds that we know are accumulating from a mix perspective in CES, and then we look out beyond 2026.

How should we think about the margin trajectory there with LEAP OE becoming profitable leave aftermarket continuing to become more profitable, but maybe OE aftermarket mix headwinds and more 9X, I guess the -- I'm getting to like a in CES for 2026. And so kind of where do we think about that going directionally in the years beyond?

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

Well, I think you captured the some of the headwinds that we've talked about not only for '26, but much for '28. I think it's important to recognize that when we spun, we thought we would be at a $10 billion operating profit level two years from here, right? So we were able to hit that milestone.

We think we'll hit it at the midpoint in 2026. So there's a lot of things that are clearly outweighed the headwinds as we continue to grow the installed base. And as we ramp with our suppliers, grow that installed base at a low to mid-single-digit level, and get the full benefit of utilization in terms volume work scopes and price, the commercial services business really will be expressing the LEAP engine that that drives the profit growth.

You talked about how LEAP will be better for us as we go forward, we'll certainly -- we'll look to have the 9X do the same. And all the while, we don't want to forget about the progress that we made in Defense, right, where we were up 11% last year, top line operating profit up over 20%.

So I think we have plenty of opportunity to deliver on that $11.5 billion of operating profit that we've talked about for 2028, potentially do better. But that's really the plan. We continue to serve the airlines as best as we can in the aftermarket ramp the airframers as they look to deliver to help the modernization and expansion programs from those same airlines, all the while supporting war fighters to the fullest strength of our ability.

Rahul Ghai - *GE Aerospace - Chief Financial Officer, Senior Vice President*

So Seth, just maybe add a couple of things here. If you go back to July when we gave our '28 guidance, we said we expect 21%-ish margins in 2028. Now we got there last year. So the jump-off point is substantially better than where we thought back in July. So we're jumping off that higher point. And as even '26, we are maintaining that margin profile. So I think we're getting to the margin outlook that we get laid out for '28.

Again, not just on profit, but also on the margins. So that's a good trajectory. And I think we spoke about the CFM56, goodness here. Retirements are still trending low, shop visits in the 2,300 to 2,400 range now, which is maybe slightly better than what we thought back in back July. And as you said, LEAP service profitability continues to get better with the external channel.

Larry mentioned, the repairs that we are driving inside the company. We expect the number of repairs that are certified to continue to grow this year over '25. So that's helping. And with the incremental shop visits, we'll drive productivity in the LEAP services as well. So all that points to the LEAP services tailwind kind of continuing here.

So I think those would be the big levers along with continued strong performance on the widebody programs GE90, as we think about the retirements are pretty much non-existent there. So all of that lends well to how we think about 2028. And clearly, it's a big margin profile than what we thought back in July.

Operator

Ron Epstein, Bank of America.

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

Ron, are you there?

Ronald Epstein - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Hey, can you hear me? Sorry about that. Hey, good morning, guys. So yes, a lot has been asked already, but just coming back to your prepared remarks, you mentioned that you guys are spending about $3 billion a year on R&D. That's a big number.

Can you maybe for a lack of better, double-click on that, maybe give us some feel for how you guys are spending that and what you're spending it on where those investments are being made?

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

Yes. Ron, I would say that in many respects, is where you would anticipate it being, right? Very much focused versus lost on improving the customer experience with the engines that we are ramping. And we've about LEAP in that regard. We want to make sure we continue to deliver improvements like the durability kit and the like to improve time on wing and to reduce the total cost of ownership.

We've got the 9X coming under wing with the 777X. So it's those newer programs that are either headed EIS or that are ramping that are really the first order. All the while, we're making sure that we are investing in the future of flight. We've talked a lot with you in particular about our RISE program. It's a technology development, not a product development program. Nevertheless, garners a big chunk of that annual spend.

And then, of course, on the Defense side, there are a number of next-gen programs that represent another meaning portion of our R&D spend. So you put that all together, coupled with the field experience we have on that 2.3 billion flight hour experience base we think we're well positioned to shape the future of flight.

And as we move forward, we've talked a lot about the puts and the takes on '26 on the road to '28, rest assured, we're going to work very hard to protect and expand the size of the R&D envelope because we know this business has led through product cycles really on the back of innovation and technology. And that won't -- we can't let that change into the 2030s --

Operator

Gavin Parsons, UBS.

Gavin Parsons - *UBS AG - Analyst*

Thank you, good morning.

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

Good morning.

Gavin Parsons - *UBS AG - Analyst*

You guys talked about CFM56 retirement is trending lower than you expected. I think at 2%, even though you're performing very well on LEAP deliveries. So I'm curious if you're still expecting that to pick up to 3% or 4%? What's changed there? And if you still expect that shop visit peak in '27?

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

Well, I think it's really -- you have more than anything, a function of demand that the airlines are trying to satisfy, right, which has them keeping the CFM56-powered planes in the air. And I think as we look at retirements in 2025, we ended up at about 1.5% of the fleet relatively in line with what we saw in '24.

I think on balance '26, probably a little bit better for us, likely in the 2% range compared I think to a 2% to 3% range we offered up in July. So at this point, from a shop visit perspective, we think we're going to be in that 2,300 to 2,400 range through 2028.

And that's better than what we said in July where I think we were soft circling 2,300. So there'll be a gradual decline come 2030. But here in the next couple of years, given utilization, given demand, we think retirement is going to be a little bit more muted and the CFM56 is going to be stronger for longer. All good.

Operator

Noah Poponak, Goldman Sachs.

Noah Poponak - *Goldman Sachs Group Inc - Analyst*

Hey, good morning, everybody.

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

Good morning, Noah.

Noah Poponak - *Goldman Sachs Group Inc - Analyst*

Could you elaborate on the agreement that's been announced with (inaudible), what that means? What are the implications? And then Rahul, on the free cash flow, you're now -- this year, you're going to part with what you had provided for 2028, anything abnormally high in '26 that has to fade? Or just how should we think about the bridge from '26 to '28 now?

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

No, I would say just on the agreement, as you all know, we have an open third-party aftermarket, we think that open network has really been a strength for us over time. We want to make sure that customers have as much optionality as possible in how they service their fleets that clearly in turn, supports asset values and lower cost of ownership. And that's really, I think, the foundation for what we've done.

Rahul Ghai - *GE Aerospace - Chief Financial Officer, Senior Vice President*

And I mean it's -- on cash flow, Noah, nothing abnormal here in '26. The -- our challenge last year was inventory growth, right? I mean we added about a couple of billion dollars of inventory last year. And part of that is we -- the supply chain is getting better, but it's not all there. So we get some pass, but not everything.

So that adds to inventory. And some of that is an investment that we are making to make sure that we get new increased output in 2026. As we think about '26, we're expecting less contract asset favorability and that is getting offset here with slower inventory growth.

So we added -- our total working capital in AD&A last year was about $0.5 billion of net headwind, and this year, we expect slightly less than that, which is not bad given low double-digit revenue growth that we are expecting this year. So really nothing abnormal coming through our cash number here and more opportunity on inventory as we get out and maybe slightly less on contract assets, which is all in line with what we previously communicated.

Blaire Shoor - *GE Aerospace - Director, Investor Relations*

Liz, we have time for one last question.

Operator

Gautam Khanna, TD Cowen.

Gautam Khanna - *Cowen and Company LLC - Analyst*

Hey, thank you. Good morning.

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

Good morning.

Gautam Khanna - *Cowen and Company LLC - Analyst*

And congrats to Mohamed and Russell. Just wanted to ask on customer behavior in the aftermarket. Have you seen any change? Do you anticipate seeing any change in terms of scope of overhauls either on widebodies or on CFM56?

Any indication, any pricing pushback? I'm just curious, are you seeing any sort of discontinuity relative to what we've seen over the last couple of years?

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

Nothing that really jumps out, frankly. Again, the demand environment post pandemic has been robust for the airlines. They need all they can possibly get from us. And that's why we've talked so much about FLIGHT DECK and the supply chain over the last several years, particularly as it pertains to supporting the fleet they have while making sure they're also able to expand and modernize.

We talked a few minutes ago about the CFM56 and all likelihood being more stable over the next few years. That clearly will create then to work scopes in certain instances, work scopes that will expand as the engines get older. But I would say on balance, we were with a lot of customers just this past weekend. They want more and they want it faster without any compromise with respect to safety or quality. It's a fair ask and one the team is committed to delivering on in the new year here.

Blaire Shoor - *GE Aerospace - Director, Investor Relations*

Larry, any final comments to wrap the call?

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

Blaire, thank you. The hour there. Now I would just say to close, GE Aerospace remains a differentiated franchise defined by our enviable market position and flight deck supporting enhanced performance. As we look ahead, our outlook reflects confidence in our ability to deliver consistent value for our customers, shareholders and the millions of people, who rely on our services and products every day. We appreciate your time today and your interest in GE Aerospace.

Operator

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