Edited Transcript

Q1 2026 GE Aerospace Earning Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the GE Aerospace first quarter 2026 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 would 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 first quarter 2026 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 business 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 will speak to total company and corporate financial results and guidance today on a non-GAAP basis.

Now, over to Larry.

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

Thanks, Blaire. Good morning, everyone. I want to start by addressing the conflict in the Middle East and the dynamic geopolitical environment our industry is navigating. While we're hopeful for a peaceful resolution, we're also embracing today's reality. With safety our top priority, we're focused every day on supporting our teams in the region and our customers globally.

At GE Aerospace, we remain committed to 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 under wing, a responsibility our 57,000 employees take seriously.

Turning to our first quarter results, 2026 is off to a strong start. Orders were up 87%, with CES nearly doubling, and DPT up 67%, including record defense orders for this decade. Revenue increased 29%, driven by CES services, and double-digit growth in DPT. Operating profit grew 18%, with both segments up double digits. And EPS increased 25%, to $1.86, with free cash flow up 14%.

FLIGHT DECK enabled us to improve output again, with commercial services revenue up 39%, and total engine deliveries up 43%. All the while, we're continuously investing to improve time on wing, and lower cost of ownership for our customers across our current fleet, and for next-generation technologies. I want to express a big thank you to both the GE Aerospace team and our supplier partners for their unwavering commitment to deliver for our customers.

Turning to slide 4, and what we're currently seeing in today's operating environment. In the first quarter, global departures were up low single digits, including a high single-digit decline in the Middle East, which represents roughly 5% of our departures. And for the balance of the year, we've assessed multiple scenarios to develop a range of outcomes, with our current assumption that the conflict and its effects continue through the summer.

As a result, we're reducing our full-year departures outlook from mid-single-digit growth to flat -- low single-digit growth. This includes a low double-digit decline in the Middle East for the year, with modest reductions to other regions. Based on our experience during the global financial crisis, the impact of services will likely lag changes in air traffic demand by several quarters, to be followed by a period of above-average growth.

We're well-positioned to navigate cycles, with our backlog providing resilience through changes in air traffic. And we have a young and diverse fleet, with leading programs in both narrow-body and wide-body. For our largest program, the CFM56, about two-thirds of the fleet is yet to undergo a second shop visit, and utilization remains stable, supporting continued demand.

Additionally, our defense business is supporting US and allied warfighters, with our engines powering the Black Hawk, the Apache, the B-1, the B-2, the F-15EX, the F-16, and the Eurofighter. We're seeing increased utilization since March, creating future aftermarket demand.

Diving deeper into services orders and backlog, our commercial services business is supported by a robust backlog of over $170 billion, up nearly $30 billion since the end of '24, providing visibility into multi-year demand and supporting our continued growth. Over the last 12 months, commercial services orders increased over 30%, including 49% growth in the first quarter.

Within services, demand remains strong for spare parts, which represent roughly 40% of services revenue. Since the beginning of March, spare parts orders are up over 30% year-over-year, and sequentially flat to the first two months of the first quarter. And even with over 25% revenue growth over the last five quarters, demand continues to exceed supply.

As a result, spare parts delinquency, which represents shipments that have been delayed due to material availability constraints, is up roughly 70% since the end of '24. Given the sustained demand environment and our existing delinquency, we're entering the second quarter with more than 95% of spare parts revenue already in backlog.

Turning to internal shop visits, which represent roughly 60% of our services revenue, approximately two-thirds of the engines due for our projected shop visits for all of '26 are currently off-wing, either in our shops or waiting to be inducted. Additionally, we have high visibility into the engines which will come off wing over the next couple of quarters based on utilization trends and required removal thresholds in concert with the airlines.

Our pipeline of planned engine removals in the second and third quarters, combined with engines that are currently off wing, exceeds our shop visit guide, providing ample demand to fulfill our outlook and de-risking our 2026 guide. Overall, we expect a limited impact on services revenue and profit in '26. We're holding our full year guidance across the board, given the macro uncertainty, though with our strong start to the year, we are trending toward the high end of that range.

Shifting to slide 6, FLIGHT DECK is fundamentally changing the way we operate, and at times like these, it matters even more. Collaborative problem solving with suppliers, air framers, airlines, and lessors are key to this effort. For example, we recently hosted a key supplier at our Terre Haute, Indiana site. Leveraging FLIGHT DECK, we worked together to improve flow and reduce waste on their lead production line, and they've since increased output by over 40%.

Actions like these contributed to priority supplier material input, increasing double digits both sequentially and year-over-year again in the first quarter, resulting in the increased outputs I mentioned ago, including engines up 43%. Across our MRO network, we're using FLIGHT DECK to increase output, reduce turnaround times, and lower the cost of shop visits.

Take our McAllen, Texas site, where we reduced LEAP high pressure turbine repair time by over 50% by redesigning the cell for better flow, and we know AI will be an accelerator for FLIGHT DECK. At our Lafayette, Indiana facility, we expanded the deployment of an AI-based material assistant to predict shop visit work scopes for LEAP engines nine months in advance. Building on the turnaround time reduction, we've recognized in both our Selma and Malaysia sites.

Collectively, our efforts improved shop visit turnaround times for both narrow-body and wide-body platforms year-over-year. With our growing install base, we're focused on expanding capacity to fulfill customer demand. Within the LEAP external network, Delta Tech Ops is now the first North American airline MRO provider licensed for both the LEAP-1A and LEAP-1B. And we just announced Iberia as our seventh premier MRO, supporting growth in Europe.

More broadly, maintaining US aerospace leadership requires sustained investment to meet customer demand. We recently announced plans to invest $1 billion in our US manufacturing sites and supply base for the second consecutive year to help accelerate engine deliveries, ramp part production that extends time on wing, and strengthen our defense industrial base.

Additionally, $100 million will be invested in our external supplier base to provide equipment and tooling to increase capacity. These actions and investments are driving meaningful progress to increase services and equipment output. And while there's more to do, we're off to a strong start and positioned to ramp even further.

Shifting to slide 7, our growing backlog reflects our commitment to deliver customer value. We're investing to improve time on wing and cost of ownership. Nearly $200 million of our $1 billion investment in US manufacturing supports expanding capacity for LEAP durability upgrades. And we're making progress upgrading this LEAP with durability kit now on over 30% of the LEAP-1A installed base.

Growing our repair capability is critical to improve turnaround times and lower cost of ownership, as a repaired part can cost 50% less than a new part. At our Singapore repair facility, we're investing $300 million to support new technologies and repair processes. Our customer-driven approach is driving backlog growth with more than 650 commercial engines for over $1 billion in wins in the first quarter alone.

This included extending our 50-plus year partnership with American as they celebrate their 100th anniversary this month. American recently committed to more than 300 LEAP-1A engines with options for 200 more to power future A321neo and A321XLR deliveries. United, also celebrating 100 years this month, selected 300 GEnx engines for its 787 fleet, making it the largest GEnx operator globally. And additionally, Delta committed to 60 GEnx engines with options for 60 more for its new 787 fleet, marking its first GEnx selection.

In services, we signed an agreement with Ryanair covering approximately 2,000 CFM56 and LEAP engines, providing material support and MRO services to scale their in-house capabilities, consistent with our open MRO strategy.

And in defense, in support of the CH-53K and the critical missions it performs for the US Marine Corps, we were awarded a $1.4 billion contract for additional T408 turboshaft engines. With continued momentum, we're looking forward to what should be an exciting Farnborough Air Show in July. Our experience with our current fleet is also informing next-generation technology investment.

RISE is central to that strategy and will enable improved efficiency without sacrificing durability. This quarter, together with the Civil Aviation Authority of Singapore and Airbus, we established the world's first airport testbed for open fan technology as a part of the RISE program. This testing will validate how next-gen engine architectures operate in real-world airline environments and marks another step forward toward ground and flight tests later this decade.

In defense and systems, we also continue to execute with speed against high-priority military needs in support of US and allied warfighters. This quarter, deliveries were up 24%, and we continue to receive awards across our family of small engines, a key growth area as programs progress. This included an award from the US Air Force to complete an initial design concept of the GEK1500 in partnership with Kratos, with potential applications across unmanned aerial systems, collaborative combat aircraft, or CCAs, and missiles.

This work is being informed by the maturity of the GEK800, which completed successful altitude testing last fall. The team designed, built, and tested the first GEK800 in less than 12 months, testing the fifth iteration of the engine last summer. And we're making progress with high-end CCAs through our partnership with Shield AI for the Expat Vehicle Program, pairing our propulsion development, testing, and certification expertise with their autonomous aircraft capabilities to accelerate delivery of mission-ready capabilities.

We also recently completed a preliminary design review on the hybrid electric turbo generator engine system for BETA Technologies' MB250 VTOL autonomous aircraft. This confirms the engine concept and demonstrates the power of combining our technical expertise and accelerating key programs. Stepping back, we're driving measurable progress on what matters most to our customers, ramping output and improving durability while reducing the cost of ownership, which supports their growth and ours.

Rahul, over to you.

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

Thank you, and good morning, everyone. We started the year with over 20% top line and earnings growth. Orders were up 87% on with CES up 93% and DPT up 67%. Revenue increased 29% with CES up 34%, while DPT was up 19%. The Operating profit was $2.5 billion, up approximately $380 million, driven by services volume and price.

Margins, as expected, decreased 200 basis points to 21.8% from the impact of installed engine growth, investments and inflation. EPS was $1.86 up 25% from increased operating profit, a lower tax rate and a reduced share count. Free cash flow was $1.7 billion, up 14% largely driven by higher earnings. Working capital and AD&A combined was nearly a $500 million source with strong utilization billings partially offset by the expected timing of compensation payments.

Going deeper on our 25% EPS growth this quarter. Growth in operating profit drove $0.29 or nearly 80% of the improvement in EPS with increased profit in CES and DPT. This was partially offset by higher corporate costs and eliminations, which were up around $120 million roughly half from an increase in eliminations and half from an increase in environmental, health and safety expenses off a low base.

A lower tax rate and reduction in share count drove an additional $0.10 of EPS growth. Tax rates decreased 3 points to 14.7% from earnings mix and benefit from recent tax legislation. Share count was down $24 million from our previously announced capital allocation actions.

Turning to CES. In the first quarter, orders grew 93% with services up 49% and equipment more than tripling to nearly $8 billion. Revenue increased 34%. Services grew 39%, with internal shop visit revenue up 35% from higher volume, including LEAP internal shop visit growth of over 50% and increased work scopes. Spare part sales were also up over 25% from improved material availability and growth of external LEAP shop visits.

Equipment revenue grew 20% with engine deliveries up 50%, including LEAP, up 63%. Widebody deliveries were also up over 25%, driven by GEnx, which was up even more. Profit was $2.4 billion, up nearly $450 million from higher services, volume, price and the absence of charges related to estimated profitability on long-term service agreements taken in first quarter of 2025. As expected, margins were down 230 basis points to 26.4% in driven by installed engine growth, including 9X shipments and investments. Both installed engine and spare engine volume increased year-over-year with growth in installs outpaced spare engine growth.

Overall, CES continues to deliver meaningful growth, largely driven by services as OE ramps. In DPT, orders increased 67% and including T408 engines for US Marine Corps CH-53K. Defense book-to-bill was above 2 for the second consecutive quarter. Revenue grew 19% and Defense & Systems revenue was up 14% as units grew 24%, driven by an increase in F-110 and rotorcraft engines. Propulsion and Additive Technologies grew 29%. With growth across the portfolio, led by Aero.

Profit grew 17% from increased volume and price. Margins were down 20 basis points to 11.8% and driven by mix, investments and inflation. DPT delivered a solid first quarter with continued demand strength and improved output.

Moving to guidance on Slide 12. Our first quarter exceeded expectations, given stronger spare part sales growth and shop business increase. We have a robust backlog supporting our growth for several years, and we are taking actions to navigate the current environment. Due to the dynamic macroeconomic backdrop, we are maintaining our guidance across the board. And as Larry mentioned, given our strong start to the year, we are trending towards the high end of the range of low double-digit revenue growth profit of $9.85 billion to $10.25 billion, EPS of $7.10 to $7.40 and free cash flow of $8 billion to $8.4 billion for total company.

We are also maintaining our segment guidance for both CES and DPT with a similar trend towards the higher end. Our guidance is based on full year departures growth of flat to low single digits and is underpinned by the following assumptions: Fuel prices remain elevated above current levels through the third quarter and decreasing to current levels by year-end, a near-term impact from fuel availability in certain geographical regions, global reduction in GDP growth impacting air travel demand. This guidance doesn't contemplate a global recession unfolding.

Near-term orders continue to be strong. and we expect the strength in the first quarter to continue into the second quarter with 95% of spare parts in backlog and all shop visits for the quarter already off-line. As a result, we are expecting second quarter services growth of high teens, above our full year guide and supporting total company year-over-year and sequential profit growth in the quarter.

For full year, we are now expecting services revenue is up roughly $4 billion year-over-year from approximately $3.5 billion expected previously, supporting our increase of profit and cash to high end of the range. However, as we get into the second half, we are taking a more measured view. Given the evolving environment and have included the potential impact from deacceleration in spare parts growth, lighter work scopes, delayed spare engine shipments and reduced billings within our guidance.

While the external environment remains uncertain, we are taking proactive actions, including managing discretionary spending and conducting reviews to assess risks and opportunities to support our customers. Overall, balancing the various factors, we are confident in our ability to deliver the high end of our guidance given our strong first quarter outlook for the second quarter and a substantial backlog.

With that, Larry, back to you.

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

Rahul, thanks. Our momentum is further supported by our sustained competitive advantages. With the industry's largest fleet, 80,000 engines and growing and more than 2.3 billion flight hours. We operate at scale with unmatched proximity to our customers across decades long life cycles, which makes us the partner of choice. Our field experience, combined with nearly $3 billion in annual R&D enables continuous improvement in time on wing and cost of ownership directly aligned with what our customers value most.

Across narrow-body, wide-body regional and defense platforms, we offer leading performance under wing, supported by deep technology expertise and our growing services network. Our world-class engineering teams develop next-gen technology to improve durability, efficiency and turnaround times, along with advanced defense capabilities.

And through FLIGHT DECK, we're turning strategy into results with a focus on safety, quality, delivery and cost, always in that order every day. With FLIGHT DECK, our over $210 billion backlog and the actions underway, we're well positioned to manage near-term uncertainty and deliver value.

With that, let's go to the 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 we can get to as many people as possible. Liz, can you please open the line?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

David Strauss, Wells Fargo.

David Strauss - *Wells Fargo Securities LLC - Equity Analyst*

Thanks. Good morning. Thanks for taking my question. Thanks for the detail on how you're thinking about the aftermarket. But just wanted to clarify. So Larry, it sounds like you ultimately do expect an impact on services growth from your from your lower departures growth forecast, but maybe it sounds like you're thinking more so in '27 or carrying into '27 and '26 in the given your strong Q1 and the backlog that you have on the services side?

And I guess in terms of what your -- how you're thinking this might play out, are you thinking at this point that there could be a pickup in CFM 56 or GE90 retirements? Or are you just expecting lower utilization to come through at this point?

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

David, I think that what you see in the lean toward the high end of the guide is the expectation that we're going to have a strong second quarter given the visibility that we have, both with spare parts and shop visits. We touched on that earlier. And I think that's very meaningful. I think what we're acknowledging it's very hard for any of us to call the duration of what's happening in the Middle East at this point. By holding the guide, I think what we've suggested is that the backlog that we have, the visibility that we do have for the second half should allow us to be within that guide that we offered up 90 days ago.

I think we are acknowledging that if there is sustained softness in departures that there is an effect typically in the commercial services, but with a lag. Let's hope we're not staring at something akin to the GFC. We mentioned that in our prepared remarks, but there will be a lag effect. But at this point, I think given what we know, we feel strongly about our ability to deliver the high end of the guide here in '26.

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

And David, just to add to that, as we think about 2027, Larry said, we feel good about '26. But having leading positions in both narrow-body and wide-body, 75% share of the narrow-body cycles, 55% share of the widebody cycles, is helpful in times like this when traffic growth is uneven as it dampens the volatility that we see in the market.

Also, the fleet is done. You touched on the CFM56 and GE90, one-third of the CFM56 have not seen their first shop visit, two-third have not seen a second shot of it. And similar trends for GE90, 70% of the GE90s have not seen the second shop visit. And we're not through -- I know it's early days, but as we sit here in April, both the number of parked aircraft and the retirements are really low.

In fact, the retirements in the first quarter for CFM56 were lower than what we experienced in fourth quarter. So we've not seen any increase in either of those two trends. And as Larry mentioned in his prepared remarks, as we've seen in prior cycles, the air traffic has a strong recovery after every downturn. So if you see here, delay, if you see any impact here in the second half of the year, it is going to be a push out of demand versus a destruction.

So again, it's hard to call '27 just yet. It all depends on how the situation evolves over the next few months. But it is early to call. But overall, we feel good about the trajectory that the business is on through the cycle.

Operator

Sheila Kahyaoglu, Jefferies.

Sheila Kahyaoglu - *Jefferies LLC - Analyst*

Good morning, guys, and thank you. Maybe just a follow-up on David's comments. Larry and Rahul, Service is up 39% in Q1, great quarter, both on shop visits and spare parts and Q2 expected to be up high teens implying only mid- to high single digits in the second half.

So maybe delving a little bit more into visibility you guys have through the summer and move you mentioned push out of demand not demand destruction. I guess how do we think about where you guys are seeing those potential risks post Q4, whether it's narrow-bodies or widebodies? And how do we think about retirement rates staying low today and potential assumptions for '26 and '27?

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

Yes. So Sheila, I think we touched on a couple of things here. as you said, we see good visibility into the second quarter, right? We've said -- Larry and I both said 95% of the spare parts for the second quarter are in the backlog. All the engines that we need to work on for second quarter are in the shop.

And are also kind of provided a full year shop visit view here that we are about one-third oversubscribed right now from what's already offering and what will come off going here in the second and the third quarter. So that gives us confidence around 2026 here.

Now as we go to 2027 and where the risks may come, I think we touched on the retirement. You touched on retirement rates. Now keep in mind that the retirement rates that we assumed for, 2026 for CFM56 are in the 2% range. And what we saw in the first quarter is sub-1%. And as we get into 2027, we've already assumed in our prior outlook, the retirements increased to 3% to 4%.

So we -- just the outlook that we've provided, we've factored in certain increase in retirement. Now we've not seen that. We are not seeing anything concerning just yet. Our order trends are holding, but it is more what is unknown and that's a little bit of caution, prudence, whatever words you want to use, for the second half of the year, and I think time will play out and give us more visibility into '27. But overall, the business is strong, franchise is strong, and I think we should be able to navigate anything that comes that evolves here over the next few months.

Operator

Ken Herbert, RBC Capital Markets.

Ken Herbert - *Rbc Capital Markets - Analyst*

Yeah, hi, good morning, Larry and Rahul, really strong spare parts orders in the first quarter. I'm just curious, especially your comment on March strengthening from the first two months. Do you get a sense that there was any pre-buying by your customers on the aftermarket ahead of potential disruptions or concerns down the road? I'm just curious as to what was underlying the real strength in orders in the quarter and if there could have been any pull forward in the order demand? Thank you.

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

Ken, I don't think we have seen any evidence of a pull forward here to Rahul's comments just a moment ago, when you think about the breadth of the portfolio, narrow-body, wide-body on a global basis, we just haven't seen that sort of behavior. We also mentioned in the prepared remarks that as proud as we are of the operational progress that we've made, we still saw delinquency increase, which means we are past due on the spare part orders that we do have.

So I think customers are busy. There's still perhaps some pent-up demand from the pandemic that is working its way through the system. But to your specific question, we have not seen that behavior.

Operator

Kristine Liwag, Morgan Stanley.

Kristine Liwag - *Morgan Stanley - Analyst*

Hey, good morning, everyone. Larry, Rahul, you talked a lot about demand, and I just want to dive a little bit deeper here. You talked about 2Q and 3Q engine removal pipelines are above your shop visit guide -- so holding the macro environment you called out, is this higher removal pipeline contemplated in your Upper Reach 2026 outlook? Or could we see revisions higher in the year if oil resolved in 3Q?

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

Kristine, good morning. I think it were not for current events, we'd be talking about an increase in the guide this morning not color and body language toward the high end of the existing range. In many respects, just given the backlog that we've highlighted a couple of times already, both in terms of spare parts, but also shop visits, absent a change in customer behavior and continued progress on our part relative to internal operational execution, that potential does exist, right?

But again, I think given current events, we thought it most prudent to simply stay with the range that we issued 90 days ago, provide a little bit more color, particularly with respect to not only quarter, but the first half year, and I won't repeat what we've already said.

But I think in terms of our ability to control the controllable, feel very good about that. The progress that we've made with the supply base has been considerable already this year. I think it's just built on the progress over the last couple of years. And you see that not only in the input numbers we've cited. But in turn, the output numbers as well, both in terms of units and dollars. That should continue.

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

And Kristine, just as Larry said, to get to higher shop visit number, that is not factored into our guidance. So what we need to see is we'll need to see better material flow through here than what we are currently factored in to burn some of the delinquency that exists on both spare parts and the shop visits out. So that, to your point, will take our services guidance above where we have factored in around $4 billion of growth this year.

Operator

Scott Deuschle, Deutsche Bank.

Scott Deuschle - *Deutsche Bank AG - Research Analyst*

Rahul, I was wondering if you might share with us an update on LEAP aftermarket profitability and particularly how LEAP aftermarket margins are trending in 2026 relative to 2025. And then I'd love to get your latest thinking on the path to margin expansion on the program beyond '26 for the long term.

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

Yeah. Now, Scott, on LEAP, the services business is trending really, really nicely. We're expecting a further improvement this year on margins. Trends have been good for the first half of the year here. And it's coming from a few things. It's coming from increased volume that we are driving in our shops.

Larry spoke about the repairs that we are developing in our aftermarket business. And this year, we expect the number of repairs that we're developing on LEAP to double over what we developed last year. So that is helping reduce the cost of the shop visit.

The external channel is coming up nicely as well. We are at now about 15% of our shop visits for LEAP are now performed by third parties. That number was close to 10% just 18, 20 months back. So that part of the business is developing nicely.

So if you put all that together, if you think longer term to your second part of your question, we do expect the LEAP service margins start to get to overall CES service margins by the time we get into '28-ish timeframe. So really pleased with the progress for a business that was just kind of breakeven two years ago. I think we made a lot of progress here in the last 18 months.

Operator

Robert Stallard, Vertical Research.

Robert Stallard - *Vertical Research Partners LLC - Analyst*

Thanks so much. Good morning. Just want to follow up on slide 5, and that spare parts delinquency chart you've got in there. Is that continued march higher in delinquencies just due to continued demand exciting supply chain strain. And how long do you think it will take to get that back down to a more reasonable number?

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

Well, it is despite the progress we've talked about a few times now this morning, not only with inputs, but output, just a function of demand outstripping supply. We highlight delinquency simply to make sure investors understand that, that dynamic is in play here. Operationally, it is a number we are not proud of, right? Because we are holding, we're failing to meet customer expectations in that regard.

I think it's going to take us a while yet here to get to zero delinquency. That clearly is the goal, on-time delivery, one of our critical operational KPIs as part of FLIGHT DECK. So we're not going to be able to kind of circle that. But I think given the continued momentum we see with our suppliers and our own operations, that is something that we should deliver on in time, regardless of the demand environment.

Operator

Douglas Harned, Bernstein.

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

Good morning. Thank you. I wanted -- Larry, Rahul, I wanted to continue on a look at the current environment because when you look forward and see some of the challenges out there, if we see jet fuel above $200 in Asia, in Europe, there are quite a few airlines that could be in some real, under some real financial pressure.

And when you look at the steps you need to take over the next year or so, how do you compare the concerns around say an airline that simply is in finance -- difficult financial straits and can't do an overhaul versus simply reductions in flying hours that could take some dollars out of LTSAs. How do you think about these different, sort of hazards out there over the next year perhaps?

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

Well, Doug, I think the scenario that we talked about earlier have us contemplating a range of possibilities given that none of us know how things are going to play out here, particularly with respect to duration in the Middle East, I don't think we've tried to tether ourselves to one scenario or another. But we have considerable backlog. We've talked about that a number of times this morning. We are mindful of the risks that we may have in the customer base. Rahul and the team have increased the work we do in that regard.

But first and foremost, we're trying to support our customers as best we can to weather these storms as we have in past situations, be it the pandemic, be it the GFC and even situations that were of lesser impact. We are also putting our spending under greater scrutiny, continuing to invest in the future of flight, of course, continuing to invest and improve durability and lowering the cost of ownership. But given the situation, we are, I think, making sure that as a senior leadership team, we are spending in a, let's say, in a more cautious fashion today given what we know and given what we don't.

Operator

Scott Mikus, Melius Research.

Scott Mikus - *Melius Research LLC - Equity Analyst*

Morning, Larry and Rahul, I figured there'd be a lot of questions about the conflict in the Middle East. So I wanted to check in on the GE9X Boeing flagged fatigue issue with engine. So just curious if you could provide an update on that. Is there any change to the expectations you had for losses on the program this year?

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

No change on schedule, no change on losses. I just start Scott, to reiterate that we're thrilled to be the sole source partner on the 777X. We've got over 1,000 engines now on order and customers want the engines, they want the airplanes. What we've shared with folks is that we saw back in January, a durability issue with the Mid Seal. Remind everybody, this is on an engine that was certified back in September of 2020.

The crack that we uncovered during a shop visit, which is part of a flight test engine is something we've seen before. We think we are at root cause, and we're finalizing the modification as we speak and we've been fully transparent with Boeing and the FAA every step of the way. So I think as Boeing has said, we believe we're on track with the certification plan that has been communicated to customers. No change to the schedule.

And of note, the 777X flight test program continues, right? It's ongoing. With respect to deliveries, we had deliveries in the first quarter, currently we're continuing to build up an assembly to the point of the mid seal. We're modifying the tooling and ramping some suppliers for the modified part. So we'll end up having deliveries that will end up more second half weighted. But I think at this juncture, no reason to believe the full year will be any different than what we've communicated.

Operator

Myles Walton, Wolfe Research.

Myles Walton - *Wolfe Research LLC - Analyst*

Thanks. Good morning. I was hoping to switch gear a little bit on aeroderivatives off-topic question, but you had a disclosure that had a restatement and moved aeroderivativesequipment from your CES segment to your DPT segment. And the company, in my eye was you had about 94 deliveries of aeroderivatives last year to your customers, but the pricing on those looked fairly benign relative to the potential for where pricing could be given the backdrop for power. So can you talk about what the strategy is for error derivatives and what the upside opportunity could be there for repricing and volume?

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

Yeah. So, Miles, on aero derivatives, as you know, we provide the engine. And then our partners in the JV, they take the product to market. They do the system integration, add some controls. There's work done by both the parties. But I think what you saw in our disclosure is basically the fact that we are burning the pre-spin backlog. That was backlog that we had sold when we were part of one company that had certain different agreements.

Off-spin, the pricing to the JV has been revised substantially. And we are kind of working our way through the old backlog. And we should transition to the order that we have won post-spin in the next, I would say, 18 to 24 months. So you see a gradual increase in pricing here over the next few months to quarters. So you'll see an improvement.

But overall, I think it's a great business. It is being sold out here through 2030s. So that is -- that's one leg of this tool. And then obviously everything that you're seeing with now CFM56 getting added potentially to the power generation capacity, that gives another leg of growth to our CFM56 platform, be it through spare parts sales to third parties who are developing that product or some other form of collaboration. So I think we are exploring all those things. But overall, the aero derivative business is a really good part of the market, both with existing products that we have and potential new entrants to that market.

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

And Myles, we moved it over as a reminder for everybody. We moved it over from CES into DPT really to give the commercial team the opportunity to focus exclusively on the airliners -- airlines and the airframers. And at the same time, there are some similarities to part of our defense engines and services business, especially in around marine applications. So there's a little bit more -- there's a better operational home for this business and the other segment. That's the sole reason for the move earlier this year.

Operator

John Godyn, Citi.

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

You guys, thanks for taking my question. If I could just come back to CES margins specifically. There's a concern out there that if this fuel shop continues retirement spike in particular, your CES margins would be at risk.

You've obviously been very thoughtful about your guidance, embedded a pretty conservative outlook for global aviation. And it doesn't seem like you think that risk is particularly likely. So I thought to just get your reaction to that to the concern on margin risk? And what positive offset to this mix effect might exist that global aviation continues to deteriorate?

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

So I think there's two parts to the question. I think for the current year, right, as you think about the margins, we baked in kind of flattish margins here for the year. Now as you think about the growth for the year, right, the $4 billion of growth that we are now expecting, keep in mind, the first quarter grew by about $2 billion and then we are expecting high teens growth here in the second quarter.

So that gets us closer to two-third or three-fourth of the growth will be in the first half of the year. So we feel good about the growth rates that we have for the year, and that should support kind of the margin expectations that we have for the business.

Now again, what's happening in the year, as we've discussed previously, is that we're getting good support from our services growth, that's dropping through at a healthy clip. And in the first quarter, service margins were actually up year-over-year. So that was a positive trend.

Now we're not baking that in for the full year. Full year, we're expecting service margins to be flat. But good start to the year. And that positive drop-through from the services is getting offset by the OE growth that we saw. You saw that in the first quarter for full year, we're expecting LEAP deliveries to be up 15%. And while both spare engines and installed engines are going to be up for the year, the growth is primarily going to be driven by installed engines here for the year. And then we have 9X shipments. So that kind of -- if you put all that together, we expect kind of flattish margins for the year for CES.

Now as you go outside the year, John, we spoke about the LEAP margin trajectory earlier to Scott's question, we expect LEAP margins to approach overall CES levels of service profitability here in the next couple of years. 9X losses should also peak by the time we get to 2028, just given that we're driving a 50% reduction in 9X cost. So LEAP margins improving, 9X headwinds kind of peaking in '28. And as we look beyond that, that is when we expect both accelerated profit and margin expansion in the business.

Operator

Gavin Parsons, UBS.

Joel Santos - *UBS AG - Analyst*

Good morning. Thanks, guys. This is Joel Santos filling in for Gavin Parsons. Thanks for taking my question. Moving to Defense, strong results in 1Q and solid margins, stronger order environment. As we look through the rest of '26, how should we think about sustainability of growth margins in the segment?

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

So for DPT, again, saw our revenue growth in the first quarter. We're expecting high teens revenue growth for the first quarter. And overall, if you look at the results for the first quarter, they keep us at pace for what we've guided for the full year, both on year-over-year profit growth and the absolute dollars of profit that we delivered in the first quarter.

Margins were a little bit light in the first quarter, largely because equipment grew more than the aftermarket, but that mix. But I think overall, we're kind of on track as we think about the year. So we're going to drive strong output. The productivity is going to get better. And the mix should also improve as we go through the year.

So I feel we're really -- given the growth rates that we had in the first quarter, we feel good about the year and you took -- as we said in our prepared remarks, we do expect DPT to be at the higher end of the guidance that we previously committed just given the growth rates that we are seeing in the first quarter and the drop-through expected from that.

Operator

Seth Seifman, JP Morgan.

Seth Seifman - *JPMorgan Chase & Co - Analyst*

Thanks very much, and good morning. In the outlook where you talk about Brent prices remaining fairly elevated through Q3, I think. In addition to Brent prices, we've seen significant increase in the spread for jet fuel. Are there special things we should be thinking about there and reasons why from a jet fuel perspective, this could carry on longer and/or be more disruptive than simply what's happening with oil prices?

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

Seth, I don't think we're trying to be too granular in the underlying assumptions, right? I mean I think the economic realities as you've just pointed out, there. And I hope what we're taking is a conservative set of assumptions on board here between now and, let's say, Labor Day. Time will tell. But by and large, we know that between the inflation and potential scarcity in other parts of the world that we could see some near-term airline behavior shift, right, by near term, I mean the late summer, early fall, call it, the second half.

But we're also assuming that by the end of the summer, we're on our way back to more normal conditions. And given what we've seen before, we may have a lag in the aftermarket on the commercial side of the business from what's happening currently. But then we tend to have a spring back, which is why we've kind of alluded to some of our historic reference points in that regard. That demand tends to get pushed out as opposed to going missing indefinitely.

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

Liz, we have time for one more question.

Operator

Gautam Khanna, TD Cowen.

Gautam Khanna - *Cowen and Company LLC - Analyst*

Hey, thank you. I had actually two questions. But the first one, just on supply chain, you mentioned delinquencies and the like. But if you could just characterize how material improved sequentially and where -- and maybe just an update you've given in the past on how many suppliers and where the pinch points are strongest?

And then just secondly, I was wondering on the company's aftermarket exposure to kind of low-cost carriers or business models in the airline industry that might be more affected by of the top oil environment? Maybe if you can rate on that.

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

Yeah. Maybe I'll take the supply chain question. I'll let Rahul speak to certain customer segment risk. I think from an input perspective. We mentioned earlier that we've seen double-digit increases again sequentially and year-over-year from some of the critical suppliers.

I think we've said all along, we're going to be the problem solvers, not the finger pointers. And I just am really pleased with the way we've had suppliers across the board engage with us. It's been a journey at every point, but I think we're just simply getting better. We're more transparent, we're more trustworthy with each other. And in turn, we've just allowed our best people to go -- to again, but to go to where the constraints, the bottlenecks exist and sold them.

Again, there's no way we take engine output up 43%, right, without that sort of support from the customer base. Likewise, commercial services up 39%. There's no way we're able to get that volume out the door to serve our airline customers without really good progress using FLIGHT DECK with the supply base. That is not to suggest that we're all clear between now and 2030. There's still a lot of work because we're going to have to do more every year. But what a wonderful challenge to have, and again, kudos to our team, kudos to the supply base, we're engaging and supporting us with our ultimate customers in mind, particularly here in the first part of 2026.

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

And Gautam, to your second question, let me if I step back here and just look at the environment that we've seen. We spoken to the order trends here through the start of the conflict. There's nothing in the environment here that's giving us falls, right? The customers are eager to get back in the air. Yes, they're experiencing temporary disruptions just given everything that's going on directly in the Middle East, a little bit from lack of availability of fuel prices, but everybody is super eager to get back and support the flying public. So that's what we are seeing right now.

We spoke to the strength that we're expecting here in the second quarter. And as we think about the full year, had it not been for the environment that we're in, and I'm repeating something that Larry said earlier, we would have raised our guidance. Because the first quarter was about $300 million better than what we had expected at the beginning of the year.

And then we're carrying that strength into the second quarter that the momentum is clearly carrying through, and we spoke to more sequential and year-over-year profit growth here in the second quarter with high teens services growth expected. So -- and then the second half is just about what we don't know. I think that is the question. So hopefully, as Larry said earlier, we're being conservative and cautious, prudent whatever words you want to use, I think, again, time will tell, but we feel good about the year as we sit here today.

And we're not seeing any disruptive behavior on part of the customers. We're not seeing risk that we didn't have maybe just a couple of months back. So -- but we're monitoring the situation very, very closely, as you would expect us to. And we would give updates throughout the quarter as we learn more.

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

Larry, any final comment?

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

Blaire, thank you. Just in closing, FLIGHT DECK will help us deliver what our customers value most, higher outputs, improve durability and lower cost of ownership even as we navigate the current environment. We're confident in our trajectory and our ability to deliver value for customers and shareholders. 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.
