



GE Aerospace

Edited Transcript

Q2 2026 GE Aerospace Earning Call



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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the GE Aerospace second-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'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 second-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 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 will speak to total company and corporate financial results and guidance today on a non-GAAP basis.

With that, over to Larry.

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

Blaire, thank you, and good morning, everyone.

The GE Aerospace team continues to execute with discipline and focus, with our customers at the center of everything we do. Our 57,000 employees remain committed to our purpose: inventing the future of flight, lifting people up, and bringing them home safely.

I'd like to open by saying CFM International is supporting our customer, Ryanair, and assisting with the investigation into Flight 1879. Safety is our top priority at all times, and our thoughts are with the passengers, pilots, and crew who were on board.

The second quarter marked another quarter of significant growth, driven by robust commercial services. Overall, orders were up 17%, with both segments up at least low-double digits. Revenue increased 24%, with CES up 27% and DPT up 16%.

Operating profit grew 18%, with both segments up at least high-teens, and EPS increased 22%. And free cash flow grew 43%, with conversion over 140%. These results close out an exceptional first half, with orders up 49%, revenue up 27%, EPS growing 24%, and free cash flow increasing 31%, with 115% conversion.

FLIGHT DECK is helping us drive the operational improvements, which undergird the significant output increases, with first-half commercial services revenue up 32% and total engine deliveries up 31%. We remain focused on advancing what matters most to our customers, delivering on robust demand and our backlog of over \$210 billion while investing in both current and next-gen technologies to improve time on wing and cost of ownership.

Given the strength of our first-half results and momentum for the remainder of the year, this morning, we're raising our 2026 guidance across the board. I'd like to thank the entire GE Aerospace team and our supplier partners for working so well together to deliver for our customers.

Turning to slide 4. FLIGHT DECK continues to strengthen our operational capabilities in safety, quality, delivery, and cost -- always in that order. With demand increasing for the F110 engine, at our site in Lynn, Massachusetts, we used FLIGHT DECK to reduce overall production lead time for a critical component by roughly 60% through the consolidation of key process steps and reducing operator distance traveled. This supported F110 deliveries growing over 50% year over year in the second quarter.

In May, I was in Brazil with the team at Celma, our largest MRO site, where I saw firsthand how we used FLIGHT DECK to reduce CFM56 final assembly lead time by nearly 50%. Actions like this have improved total shop visit turnaround times by about a week since the end of 2025.

And just last week, we held three kaizens with GKN, a top supplier of fan cases and other key components, to break constraints tied to rate performance. We worked collaboratively together to create detailed visual work instructions, increased capacity, and implemented a 3D inspection technology which led to a 90% improvement in inspection time. Work is now underway to sustain these results and build further momentum.

At the same time, AI is a force multiplier for FLIGHT DECK. Across our turbine airfoils team, for example, we recently ran several kaizens to improve the demand signal process. Standardizing and reducing demand signals strengthens supplier confidence and improves the flow of critical parts. By deploying FLIGHT DECK to simplify and then using AI to automate the process, we cut the number of demand signals in half and reduced processing time by nearly 90% across 190 parts.

Reducing the number of demand signals we send our suppliers helps focus their efforts, leading to priority supplier material input increasing double digits sequentially and year over year again in the second quarter. This supported commercial services revenue up 32% in the first half, including record internal shop visit output in the second quarter and first-half total engine deliveries up 31%, including LEAP engines up 41%.

We're also expanding capacity to meet growing aftermarket demand for LEAP, as the installed base is expected to more than double between now and 2030. Last week, we celebrated with MTU the grand opening of their new maintenance facility in Fort Worth, which recently inducted their first LEAP-1B engine.

All in, we're making meaningful progress with FLIGHT DECK. And while there's always more to do, we delivered substantial improvement in the first half, and our teams remain focused on meeting customer expectations.

Shifting to slide 5. While the environment remains dynamic, aftermarket demand has been resilient. First-half departures were roughly flat, but we have not observed any changes in customer behavior. We expect a gradual return to modest departures growth in the second half. And combined with our commercial services backlog of roughly \$170 billion, we remain well positioned for services growth in 2026 and beyond.

Demand continues to be robust for LEAP, our fastest-growing platform, as demonstrated by Copa Airlines recently selecting up to 120 LEAP-1B engines to power their growing fleet of 737 MAX aircraft. In addition, maturing time on wing and lowering cost of ownership remain critical priorities for our customers.

We recently achieved a major milestone, completing the certification for the LEAP-1B durability kit, including the upgraded HPT blade. This is expected to deliver approximately a two-fold improvement in time on wing with full MRO and new make cutover expected early next year.

At the same time, we're improving LEAP turnaround times, which are now around 100 days, down over two weeks year over year. Keeping customer fleets flying is critical, and we've reached nearly zero grounded LEAP-powered aircraft due to engines, supporting our customers' need for reliable lift.

We're also continuing to advance the future of flight. Through the NASA Electrified Powertrain Flight Demonstration, or EPFD project, we recently completed a ground test for the megawatt-class hybrid electric demonstrator. This represents a major milestone in understanding hybrid electric flight by bringing together advanced engines, electrical power systems, and controls.

We've also expanded our relationship with BETA Technologies, who joined the EPFD project last year, to advance the modification of the EPFD aircraft. We're looking forward to this plane being part of the flying display at the Farnborough Airshow next week.

Within Defense, we continue to support robust demand for our services and products, both domestically and with allied partners, while advancing next-gen technologies. We had announced an agreement with Turkish Aerospace Industries to provide F404 engines for its HÜRJET advanced jet trainer program, and our CT7 engines were selected to power the UK Ministry of Defense's new medium helicopter program.

We completed an assembly readiness review for the XA102 adaptive cycle engine, a critical milestone that moves the program from design into assembly and test. This builds on the progress of the XA100 and validates that the XA102 engine design, manufacturing process, and supply chain are progressing and on schedule.

And we continue to strengthen our position in the fast-growing Collaborative Combat Aircraft, or CCA, market with our suite of products. Both the GEK1500 and the GE426 achieved significant milestones to move to preliminary design review, bringing them closer to eventual flight on small and medium-thrust CCAs, respectively. We look forward to sharing more exciting wins and updates at the Farnborough Airshow next week.

Stepping back, we're focused on translating our unmatched experience and investments into value for our customers while driving long-term growth.

Rahul, over to you.

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

Larry, thank you, and good morning, everyone.

GE Aerospace delivered another strong quarter, marked by double-digit growth across all key metrics. Orders were up 17%, with CES up 18% and DPT up 12%. Revenue increased 24%, marking our fifth consecutive quarter of at least 20% growth; CES was up 27% and DPT grew 16%.

Operating profit was \$2.7 billion, up 18%, driven by services volume and price. As expected, margins decreased 130 basis points to 21.7% from installed engine growth, investments, and inflation. EPS was \$2.02, up 22% from increased operating profit, a lower tax rate, and a reduced share count.

Free cash flow was \$3 billion, up 43% from higher earnings, a nearly \$200 million reduction in working capital and AD&A, including year-over-year favorability from tariffs. Net income conversion was over 140%.

Our results built on the strong first quarter, with year-to-date revenue up 27%, operating profit up nearly \$800 million, largely driven by strong growth in commercial services, and free cash flow up over \$1 billion.

Going deeper on our 22% EPS growth this quarter. Increase in operating profit drove \$0.31 or over 85% of the improvement in EPS. Growth in segment profit was partially offset by corporate cost from lower interest income and an increase in intercompany eliminations.

The remainder of the EPS growth was driven by lower tax rate and reduction in share count. Tax rate decreased 2 points to 16.7%, primarily from tax planning and benefit from recent tax legislation. Share count was down 24 million or 2% from our previously announced capital allocation actions.

Turning to CES. In the second quarter, orders grew 18%. Services were up 22% and up 34% in the first half. Equipment was up 7% as some orders shifted to second half, while nearly doubling year to date. Revenue increased 27%. Services grew 26%.

Internal shop visit revenue grew 25% from higher volume, including LEAP internal shop visits up over 50% and widebody mix. Spare parts sales increased over 25% from improved material availability that helped us fulfill strong customer demand, growth in LEAP external channel, and price.

Even with strong revenue growth, given robust orders, spare parts delinquency, which represents shipments that have been delayed due to material availability constraints, grew 20% sequentially in the second quarter. Workscopes continue to be favorable for LEAP and widebody programs and remain stable for CFM56.

Equipment revenue grew 30%, with engine deliveries up 26%, including LEAP up 24%. Widebody deliveries were up 30%, with the GENx up significantly more. Profit was \$2.7 billion, up 20% from higher services volume and price.

As expected, margins were down 160 basis points to 27.3% from install engine growth, including GE9X, investments, and inflation. Year to date, CES has delivered a very strong first half, with orders growth of over 50%, revenue growth of 30%, including services up 32%, and operating profit of \$5 billion, up approximately \$900 million year over year.

In DPT, orders increased 12%. Defense book-to-bill was 1 in the quarter and 1.7 in the first half. Total DPT backlog was over \$30 billion, up roughly \$5 billion since the start of the year. Revenue grew 16%. Defense & Systems revenue was up 12%, driven by growth in both services and equipment, with engine deliveries up 7%. Propulsion & Additive Technologies grew 23%, with growth led by Avio Aero.

Profit grew 18%, and margins were up 30 basis points to 13.8% from increased volume and price, partially offset by mix, investments, and inflation. In the first half, DPT delivered solid results, with orders growth of 40%, revenue growth of 17%, and operating profit of around \$900 million, up 17%.

Moving to guidance on slide 10. Our first half exceeded expectations, and we expect strength to continue into the second half. As a result, we are raising our full-year guidance across the board.

We are expecting overall revenue to grow high-teens, up from prior outlook of low-double digits. We expect CES growth of around 20%, up from prior outlook of mid-teens. We now expect commercial services to grow low-20s, up from mid-teens.

Commercial services backlog stands at roughly \$170 billion, up nearly \$30 billion since the end of 2024. Given the sustained demand environment and existing delinquency, we are entering third quarter with more than 95% of spare parts revenue in backlog, similar to second quarter.

Engines already off-wing and the pipeline of planned removals in the third quarter exceed our full-year shop visit guide by over 40%. This provides us with ample visibility into demand to fulfill our outlook for 2026.

We now expect commercial equipment to grow around 20%, up from mid to high-teens, with LEAP deliveries up high-teens from 15% previously. And we expect DPT growth of low-double digits, up from mid to high-single digits.

Operating profit is now projected to be in a range of \$10.55 billion to \$10.75 billion, with improvement in both segments. CES operating profit is now expected to be in a range of \$10.25 billion to \$10.35 billion, up \$400 million versus the high end of the prior guide. This reflects a drop-through of around \$1 billion of improvement in commercial services revenue, partially offset by higher equipment growth.

We expect DPT profit to be in the range of \$1.6 billion to \$1.7 billion, up \$50 million at the midpoint versus the prior guide, reflecting drop-through from higher revenue. Expectations for corporate costs and eliminations remain unchanged at \$1.2 billion to \$1.3 billion.

Taken together, we are raising our EPS guidance to a range of \$7.65 to \$7.85, up \$0.35 at the midpoint from the high end of the prior guide. This reflects higher profit combined with the lower tax rate, which we now expect to be below 16.5% for the year.

We are also raising our free cash flow guidance to \$8.9 billion to \$9.2 billion, up \$650 million from the high end of the prior guide, reflecting higher earnings and better working capital performance.

Overall, 2026 is shaping up to be another strong year with high-teens revenue growth and around \$1.5 billion of profit and free cash flow growth, building on the momentum the business has had in the last few years.

With that, Larry, back to you.

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

Rahul, thanks.

We're proud of the progress we've made in the first half. It reflects the strength of our leadership positions across commercial and defense and the continued focus of the GE Aerospace team to deliver for our customers.

Our performance is underpinned 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 across decades-long life cycles. That unmatched scale keeps us close to our customers, making us the partner of choice.

Our field experience, which enables continuous improvement in time on wing and cost of ownership, outcomes our customers value most. We offer the best-performing products under wing across narrowbody, widebody, regional and defense, supported by deep technology expertise and a growing services network.

With roughly \$3 billion in annual R&D spend and CapEx investments of over \$1 billion, our world-class engineering and manufacturing teams are advancing next-gen technologies to improve durability, efficiency, and turnaround times, while building additional capabilities for our defense customers through developing innovative technologies and partnering with disruptors to move at pace.

Through FLIGHT DECK, we're turning strategy into results with a focus on safety, quality, delivery, and cost -- always in that order. Overall, we're confident in our path ahead as the GE Aerospace team is poised to deliver exceptional value to our customers and our shareholders.

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 we can get to as many people as possible.

Liz, can you please open the line?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Sheila Kahyaoglu, Jefferies.

Sheila Kahyaoglu - Jefferies LLC - Analyst

Good morning, Larry, Rahul, and Blaire. Maybe if you could just update us on what you're assuming from a macro standpoint at this point, what degree of uncertainty is maintained in the guidance? Because it seems like the service orders have been very good, up 22% in Q2, 34% for the first half, and that would support higher than the implied 12% services growth in the second half. Thank you.

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

Sheila, good morning. There's no question that the environment remains dynamic. And as we look at where we are, as we said in our prepared remarks, I think we feel very good about our position here, largely on the back of customer behavior, which hasn't changed.

We've seen service orders continue to be robust. Parked aircraft, particularly the CFM56, has actually declined since the beginning of March. I think Rahul has highlighted the fact that we've got our MRO footprint really oversubscribed at this point in a significant way. As much as we're pleased with the delivery increases, our spare parts delinquencies are up, unfortunately.

So I think on the back of that, and I don't suspect we'll hear much different in Farnborough, we do expect to return to more modest departure growth in the second half. We saw relatively flattish performance, a little bit of the uncertainty that kept us holding the guide 90 days ago.

But we think that will begin to return to a more normal environment through the back half, going into '27, clearly at a more robust level. So I think all in all, as we sit here mid-year, demand could evolve from here, but it's been far more resilient than maybe many of us would have expected.

I think the tone at IATA very much was let's all remember that as we saw in the pandemic. Demand will return to more normal conditions, probably sooner than we would have otherwise anticipated and potentially at a more pitch level. Therefore, let's continue to be prepared for that.

And that's really, I think, what we're seeing in our conversations with our customers. That's what we're preparing for, not only with respect to the back half of 2026, but as we get ready for 2027.

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

And Sheila, to your second question on the first half to second half, as you said, that very strong first half for services, both on orders and revenue, and we raised our full-year guide to the low-20 percentage growth, and now we're expecting services to be up \$5 billion year over year. This is up about \$1 billion from where we were just back in April, which is what led to us improving the CES profit outlook by \$400 million from the higher end of the prior guide.

So we've been sliding for linearity for the last several years, and we are making progress in that regard. But even with that, there is sequential growth from first half to second half of 2026. And on a year-over-year basis, the second-half services revenue in our current guide is up low-double digit from a very strong second half last year. Keep in mind, second half last year was up \$3 billion from first half.

So the compares are getting much tougher. But as Larry said, we feel very comfortable with where we are with the current guide. And as I said in my prepared remarks, 95% of our spare parts are in the backlog for third quarter. We have 40% oversubscribed on shop visits. And our CFM56 shop visits -- also, as we think about the number of shop visits we're expecting, we had at the higher end of the 2,300 to 2,400 shop visits.

So all in all, we feel very good. And it's great that we're driving double-digit growth for services in the second half, and that momentum should carry us into 2027, as Larry said a minute ago.

Operator

Myles Walton, Wolfe.

Myles Walton - Wolfe Research LLC - Analyst

Thanks. Good morning. Maybe one on cash flow, if I could. Obviously, you're outperforming that pretty handily this year, \$9 billion on \$10.5 billion of operating profit, which is obviously much higher than the free cash flow you have out there for 2028 on an even higher operating profit number.

So the question really is, this free cash flow conversion performance, should we expect free cash flow to continue to grow as earnings grow from here? Or are we going to be confronted by cash conversion, we're normalizing, and we should expect free cash flow to maybe stay at this level over the next couple of years?

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

Myles, thank you for the question. You're right. I mean, we're really pleased with how we performed in the second quarter. Cash flow, \$3 billion, up 43% year over year.

And the best part for all of us was that we were able to reduce our working capital in the quarter even with 24% revenue growth. That does not happen easily, so a lot of hard work by several people to make that happen, great performance on receivables, really good performance on inventory as well, a little bit of help from tariffs. Because we got \$100 million of refund from tariffs in the quarter, but in the grand scheme of things, that's not extremely material.

So when we raise the guide for the year, with over 100% conversion in the back half as well now, and if you think about a guide or call it \$650 million from where we were at the high end of the prior guide, I would say about half [and half] from earnings growth and working capital performance, so we're carrying that working capital performance into our full-year guide as well. So we are performing better, and as you said, the \$9 billion plus for this year is more than what we expected for 2028 just a year ago back in July of 2025.

So really good performance. I think we feel good about our working capital performance. And there's nothing -- no huge one-time items in nature, so we do expect cash flow to grow here with earnings, but the conversion should normalize. I think we've been saying that as we -- over the last 12, 18 months. Conversion should normalize, but even with that, we expect significant cash growth as our earnings grow.

Operator

Seth Seifman, JPMorgan.

Seth Seifman - JPMorgan Chase & Co - Analyst

Thanks very much, and good morning. I wanted to ask, as we think about where things go from here, you talked about the visibility that you have into the remainder of '26. But maybe as we think about beyond sort of -- any indication that the strength this year is a pull forward of anything or any indication that the resilience that you're seeing in demand maybe gives you a little bit more confidence in the growth potential next year?

And then lastly, on the supply side, you talked about record shop visits this quarter being all booked up. To what degree is the supply side a governor on services growth as we look forward?

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

Well, Seth, I think if I take those in reverse order, I think we've made a tremendous amount of progress on the supply chain side. There's no way you have a print like this otherwise thrilled to see not only nine consecutive quarters with increases from our critical suppliers, but maybe more importantly, the underlying work, the deep technical collaboration and joint problem-solving that we see underway.

I mentioned GKN. We could have mentioned a number of folks that are really working with us in ways that are materially better than a few years back. Hopefully, we're a better partner and we're a better customer. And that is just unlocking unleashing capacity. It's busting bottlenecks that otherwise would constrain us.

I won't recite some of the demand numbers that we've shared. But as we think about the back half, as we think about '27, and frankly beyond, it's much more a supply-side challenge than it is demand. Not that we would ever take the demand environment for granted, but we know, despite this morning's news, we need to have a bigger, better second half. That's where our team is focused. There are no victory laps here in Evendale today. And as we get ready for next year, that is very much the mindset.

I think if we just focus on services for a moment, we know longer term that in addition to that backlog that we've talked about, \$170 billion commercially, the installed base should continue to grow gradually every year at a low to mid-single-digit rate. That's definitely the way we see things through the rest of this decade.

We know we're going to have favorable effects from both workscope and price. I think Rahul mentioned that earlier. And to the extent that we can continue to make the progress with FLIGHT DECK, we think we're going to reduce that overdue, that delinquent backlog, which is a nice kicker over the next several years, not only from a revenue perspective, but to Myles' earlier question, it should help us from a working capital and cash flow perspective.

So we know with LEAP becoming a larger part of the installed base eclipsing the CFM56, we know we'll get the GENx doubling between '24 and '30, that that installed base with our growth platforms is definitely going to grow. Workscope, we believe, is a structural tailwind, largely as a function of the natural aging of the installed base. And we'll get a little bit of a price here and there as we move forward.

So I think we said earlier, this spring, this summer, no reason '27 should diverge from that double-digit commercial services growth medium-term outlook, even as we go into next year, what will clearly be a higher trimming off point than we imagined. Again, the environment is dynamic; we're mindful of that. But with our backlog, with that framework, that algorithm in place, and just the overall tone we're hearing from customers, I think we feel very good about where we are at this point.

Operator

John Godyn, Citi.

John Godyn - Citi Infrastructure Investments LLC - Analyst

Hey, guys. Thanks for taking my question. Larry, last quarter, you held back raising guidance despite a strong 1Q because of the concerns in the environment. And I recall you mentioning a number of possible tail risks that were on your mind, completely understandable in the moment. But now, with the benefit of hindsight, not only did GE survive, but obviously thrived, and ultimately, we've got this large guidance provision today.

I was hoping you could just spend a moment maybe reflecting on your own learnings from the experience, elaborating a bit on what you're hearing from customers. Are we just structurally underappreciating the resilience of the business and its ability to compound value through complex macro backdrops?

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

Well, John, I would never suggest anyone underappreciates what we do in the value of the franchise. I'll leave that to others to make that assessment.

There's no doubt, I think, in our minds that we would play April all over again in the same way that we did. We did not know at that time when the conflict was still fresh what our customers would do. Perhaps we know more definitively that that lesson from the pandemic that we've touched on a few times over the last several months, which was certainly in the air at Rio, at IATA, that we

need to make sure we are prepared for the other side of the uncertainty, has really played out. And again, lots of different data points here that speak to the resiliency of demand, particularly in the aftermarket.

There's just no way, I think, in the moment, given the uncertainty, just given the headlines, that we would have been well served with investors to get out with an early bump in the guide. But here we sit mid-year, we know how the market has responded to the uncertainty, to the dynamic conditions that are clearly out there.

All the while, we continue to do what we do from an execution perspective, not taking anything for granted, but also knowing that with the backlog, with demand remaining robust, that we needed to continue to invest, we need to continue to procure, we need to continue with our FLIGHT DECK work. So I think we'd play it the same way all over again and are thrilled to see the resiliency and demand and expect that that gives us -- helps give us a little bit of a lens on how the second half is likely to evolve.

Operator

David Strauss, Wells Fargo.

David Strauss - Wells Fargo Securities LLC - Equity Analyst

Thanks. Good morning.

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

Good morning, David.

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

Good morning.

David Strauss - Wells Fargo Securities LLC - Equity Analyst

I wanted to see if you could just touch on your expectations for the LEAP shop visit profile from here. I think over 50% growth first half of the year, I think you talked about it compounding kind of at 25% from here. So if you could just revisit that.

And if you could also just touch on these durability upgrades, the durability kits, how that's kind of factoring into all of this, how long it's going to take you to get through kind of upgrading the existing fleet, and how does that influence numbers. Are you effectively pulling forward work today that you might have seen out in the future with these durability upgrades? Thanks very much.

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

So David, let me start and then I'll hand it to Larry to talk a little bit about the benefits that we are seeing from the durability upgrade.

So I think on shop visits, as you said, we are expecting the shop visits to probably grow at kind of a 25 percentage CAGR from now to 2030. That's all a function of the installed base that's largely out there and will continue to grow over the next couple of years. But most of the engines that we are shipping now are probably not going to come in for a shop visit between now and 2030, so it's largely a function of the installed base that exists in the globe today.

So with that, the big change that we are going to see is that our external channel is going to continue to grow. Our external channel has gone from like sub-10% of our overall LEAP services portfolio to mid-teens right now, and we expect that to grow to 30% by the time we get to 2030. So I think that's the transition you're going to see here.

And we are seeing the benefit of that. As I said in my prepared remarks, we saw spare parts growth from that channel contributing to our second-quarter revenue growth as well, so that will continue to build. And all we are doing on our side is continuing to invest to build more capacity, and then we are adding more channel partners.

And the other part is that, on the cost side, we do expect continuous production in our shop visit costs from two main things: one, the fact is that we will be leveraging our fixed cost investments more as volume continues to grow; and then, the second part is that we are working really hard on repairs. Our repair CAGR from this year is more than 20%. So we're investing in repairs to bring that shop visit cost down because, as you know, repairs help both with the turnaround time and the cost.

And then obviously, the growth of external channel helps a little bit with mix. So that's kind of the trajectory that we're seeing now in 2030.

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

David, I would just maybe step back on the durability kit for a moment. Whether it be at IATA a few weeks ago, whether it's a recent customer survey that we've done, I think we're encouraged with some of the feedback we're getting.

Internally, we've said one of our priorities for the year is to be more customer-driven, to really see ourselves as our customers do. That sounds obvious, but it's really helped us, I think, see some areas of opportunity, certainly improving durability and time on wing, front and center.

I think from a LEAP-1A perspective, we now have over 40% of the fleet equipped with the durability kit. And the performance has been quite good. We've talked about this being the unlock for a doubling of the time on wing, putting us in line with the CFM56, really encouraged in that regard.

Now, we have certification for the LEAP-1B durability kit. So that will give us the opportunity through the back half of this year to really work through the industrialization plan and give us a full cutover, both with respect to the aftermarket and new make, really in 2027.

It really won't be something that will trigger an acceleration of work. I think we've talked in the past that the fleet retrofits really will be a multi-year effort. Those engines are due to come in for their first shop visit on a relatively predictable schedule. I don't think you're going to see many engines come in early for the durability kit.

So really be in the early 2030s until we can look at both the LEAP-1A and LEAP-1B fleets as being fully retrofit. But again, the certification is a big step. We'll work for the industrialization encouraged by the 1A field performance and, over the next several years will, I think, be in a much better place in this regard.

Operator

Ronald Epstein, Bank of America.

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

Yeah, hey. Good morning. I was wondering if -- you both mentioned workscope in your comments about the future growth in the business. Larry, could you give us more of a feel of what you're seeing there and what you expect to see in workscope? And then I've got a follow-up.

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

Sure. Well, again, in many respects, be it on the widebody side, be it on the narrowbody side, it really is a function of the natural aging of the installed base. If you think about the growth platforms, Ron, whether it be LEAP, whether it be the nx, we're really moving from that quick turn, that early check-up, check-in to the first performance restoration shop visit.

Even with some of the older platforms, you look at the GE90, for example, 70% of that installed base has yet to see shop visit two, which has a significant step-up in workscope. So we have, I think, real direct visibility. We obviously need to plan our own capacity requirements. The airlines need to work through the removals and any third-party work that may be required. I think that is really why we talk about this.

Now, when you look at the CFM56, even obviously the legacy narrowbody platform, it's still a relatively young fleet, and we'd argue with a lot of life left in it. There are fewer long-term service agreements on those engines than we would see in the widebody segment, but 30% of that fleet hasn't seen the first shop visit. Two-thirds haven't even seen the second shop visit.

So we think about CFM56 as the older platform it is. But as we work through the next several years, I think we'll see those engines come back. And again, that structural support, that tailwind will be helpful.

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

And Ron, just maybe one additional comment on CFM56. On CFM56, as we said in our prepared remarks, the workscope continues to be stable. And the growth largely is coming from better volume, better price, and higher material availability.

So the dollar per shop visit is getting better because it's not driven by increase in workscope, but the fact is that we are able to fulfill some of those heavier workscope that we could not finish earlier. So the material availability is what's driving the growth in CFM56 in a big way.

But overall, the CFM56 workscope should remain stable from now until '28, '29 because there's hardly any used materials in the market, retirements are low, and a lot of the engines that are coming in now need life limited part upgrades as well. So that's what we see on CFM56.

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

Got you. And then just as a quick follow-up, you gave us a little teaser about Farnborough and the EPFD aircraft. How are you thinking about hybrid electric and what it could mean for GE?

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

Well, a teaser is a teaser, Ron, and if I answered that question in full, it's no longer a teaser. I think you know as well as anybody that as much as we talk about open fan as one of the critical building blocks of the RISE technology development program, hybrid electric is one of those four key pillars.

I think on the defense side, the same thing applies, and that's very much the reason for the investment -- the collaboration with BETA. The turbo generator program, we think, has a real fit with a number of defense applications that we can work on together.

So more to come over the weekend and early next week. But I think both on the commercial and on the defense side, you're going to see electrification and thus hybrid electric being a more important part of our technological portfolio -- technology portfolio as we move forward. We'll see you there.

Operator

Scott Mikus, Melius Research.

Scott Mikus - Melius Research LLC - Equity Analyst

Good morning, Larry and Rahul. Just a quick question. Given the financial pressure that airlines are feeling from the higher fuel prices, does that in any way impact your pricing strategy on CFM56, GE90, or any of the legacy engine programs?

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

Scott, so what -- we clearly recognize that, but I think at the same time, there have been several -- the airlines have also recognized a lot of price. So I think the overall -- I think you're closer than I am, but the fact is what we are seeing is that the airlines are kind of largely holding their profitability levels through this uptick in pricing. But the way we think about our own pricing is that we make significant investments and we add a lot of capability to our customers and we want to be rewarded for that.

So that's the environment we are in. At the same time, we are facing inflationary headwinds as well. So broadly speaking, our pricing approach or on spare parts catalog for this year is going to be consistent with what we did last year. So that's kind of our approach for 2026.

And then obviously longer term, we continue to get incremental pricing as we kind of moving away from those initial launch phases of LEAP and GENx pricing, and the dollar per shop visit on those platforms has grown over the years that we've discussed previously. And that higher-priced shop visit will start showing up in our revenue book starting 2028, '29, and that obviously helps us get LEAP back to CFM56 profit levels by 2030.

Operator

Kristine Liwag, Morgan Stanley.

Kristine Liwag - Morgan Stanley - Analyst

Hey. Good morning, everyone. Larry, Rahul, Blaire, it seems like the peak pain from LEAP durability issues and the post-COVID supply chain and labor constraints are behind you, and we're seeing this as throughput has improved meaningfully.

As these operational headwinds continue to ease, how should we think about incremental margins from this higher throughput and productivity, especially if it seems like the shape of that shop visits continue to be strong? Are there offsets we should keep in mind? Or do you have a very strong line of sight to a greater than 30% CES margin?

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

Kristine, thanks for the question. Let me start, and I'll see if Larry wants to add anything here.

Overall, as we think about our margin trajectory, what we saw here in the second quarter, what we're experiencing for 2026 is very consistent with whatever we've been talking about. We've got three large issues on margins that we are working our way through. One, really strong install engine growth, which is absolutely needed given the demand that's out there, also feeds the install base that Larry spoke a few minutes earlier about what drives the long-term services growth. But strong install engine growth both last year and this year, and I'd expect that to continue.

LEAP services, as the platform broke even in 2024 on the services side, we're gradually moving up. Margins are getting better this year, both in the first half and expecting full-year margin expansion on LEAP. But overall, we expect still below overall CES service margins, and that is putting a little bit of pressure on our margins. We expect LEAP services margins to be in line with our total services portfolio by the time we get to 2028. So that's kind of the second issue we're dealing with.

And the third, and perhaps the biggest, is 9X. Initial units, highest cost units, and those are getting -- we started shipping those out last year, more this year, that volume will grow. And as we've previously said, we expect those losses to peak by the time we get into 2028. And beyond '28, we should see both losses come down and therefore the margins get better as well.

So those are the three issues. There's nothing structurally that is causing us to have this issue. It is all timing. But even with all these issues that we're dealing with, our margins at the total company level are largely flat. And that is because our services portfolio is the biggest part of the portfolio. It's the highest margin and it drives the highest dollar growth.

So as those headwinds abate, the inherent mix advantage that we have in our business continues. So overall, both for CES and for total company, we would expect margin expansion in '28 and beyond.

Operator

Ken Herbert, RBC Capital Markets.

Ken Herbert - RBC Capital Markets Inc - Analyst

Yeah, hi. Good morning. Maybe, Larry, you've mentioned recently being at the IATA general meeting or conversations there, and I think either in your prepared remarks or in the press release, you mentioned cost of ownership. One of the items we hear most from airlines is the new generation cost of ownership for the engines is much higher than before and in some ways maybe almost not sustainable for their legacy operating models.

How do you think about the airlines and their ability to absorb these costs and obviously continue to pay for the technology that you're investing in? And is this an area that you think maybe needs to be addressed in some form?

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

Ken, there's no question, whether it be cost of ownership, whether it be time on wing, we've heard those concerns loud and clear. I think what I was encouraged by in IATA and also in some of the recent customer feedback that we've got is I think people see us here in the short term doing all that we can to support them.

We've got LEAP AOG's, aircraft on the ground, down to near zero at the moment, despite the fact that the durability kit is not fully installed. And we're doing that through a combination of making sure we've got adequate spare engine coverage in the field. We're

reducing the turnaround times, I mentioned that as well, in our shops. And everything that we're doing is to make sure that we are avoiding having that asset in a non-revenue situation.

Longer term, there's no question that customers love the engine. They love the fuel efficiency and what they see in the LEAP. I think the order book is a proof point in that regard. But we need to make sure that, in addition to the short-term measures, that we are, both with the LEAP-1A and the LEAP-1B, getting that durability kit in place, supporting the retrofit of the install base as quickly as we can so that the issues that you've referenced become a thing of the past as soon as possible.

So not in any way declaring victory here; we understand where our customers are in this regard. But again, I think we're encouraged by the state of play and the tone today. Much better, I would submit, than it was a year ago, but unfinished business.

Operator

Gautam Khanna, TD Securities.

Gautam Khanna - Cowen and Company LLC - Analyst

Yes, thanks. Good morning, guys. I was hoping you could help square the second-quarter services growth of up 22% with the intra-quarter comments about spares orders up 40 through the first two months. I know that's about 40% of the service business, but if you could just talk to us about what happened in June and kind of the components within service orders, spares, LTSA, and the like. Thanks.

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

Okay. Thanks, Gautam.

Yeah, as you said, spare parts make up about 40% of our total revenue. So in those parts, we were talking about spare parts growth order rate of about 40% kind of mid-quarter. And there's been some normalization in spare parts orders in the last couple of weeks from a very high level. Those are exceptional results and kind of honestly unsustainable levels at the first part of the end of the first quarter, start of the second quarter.

So we expected some normalcy, and that has started to happen, we saw some normalization here. But overall, first-half service orders are in the 34% range. And that 34% for first half this year is actually an acceleration for what we saw in first half of last year on a year-over-year basis and even second half of last year. So we've seen continued sequential growth, continued acceleration of trends in service orders.

So I think the momentum is very strong. Obviously, we spoke about the delinquency being up even with the 34% growth in services orders for the first half and delinquencies up 20%. So the demand is there, we're trying to meet that demand, but overall, I think we feel very comfortable with the outlook.

Anything you want to add?

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

No, I mean, I think you said it right. We do not have a demand problem. I think we've touched on that a number of times through the course of the call, \$170 billion of services backlog, CFM56 retirements low. Our shop visit outlook is probably trending now

toward the high end of that 2,300 to 2,400 range this year. And next, we mentioned the fact that we're oversubscribed here in '26 from an internal shop visit perspective.

So it's largely going to be about continuing the progress and the real progress I think we've seen here in the first half with the supply chain. And that is very much the order of the day as we get ready for the second half, let alone 2027.

Blaire Shoor - GE Aerospace - Director, Investor Relations

Liz, we have time for one last question.

Operator

Robert Stallard, Vertical Research.

Robert Stallard - Vertical Research Partners LLC - Analyst

Thanks so much. Good morning.

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

Good morning.

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

Sorry about the loss yesterday, Rob.

Robert Stallard - Vertical Research Partners LLC - Analyst

Just a quick question for you. I was wondering if you could give us an update on the spare engine ratio in the quarter and whether you're seeing any change in customer buying patterns as you roll out these durability improvements on the LEAP. Thank you.

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

Yeah. On spares, Rob, overall, we are seeing some normalization, but the number of spare engines that we are shipping, they continue to grow up, so they continue to grow. So it's not -- the spare engine ratio is coming down just given our growth in install engine shipments, but the number of spares that we've delivered here in the first half, they've gone up.

So that's what we're expecting. But overall, we are kind of in the low-double-digit range for LEAP, life of program, and that's very close to 10% to 12% that we expect at maturity. So expecting this gradual normalization to continue into 2027, but we're getting to the point where it's kind of at the run rate level. By the time we exit the year, it should be at the run rate level.

Blaire Shoor - GE Aerospace - Director, Investor Relations

Larry, any final comments?

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

Blaire, thank you.

Maybe just in closing, our priorities remain clear: deliver for our customers, improve time on wing, and lower cost of ownership. FLIGHT DECK is helping us turn those priorities into measurable results. We have more to do, but are confident in our path ahead and long-term value creation for both our customers and our shareholders.

We thank you for your time today and your continued interest in GE Aerospace.

Operator

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

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