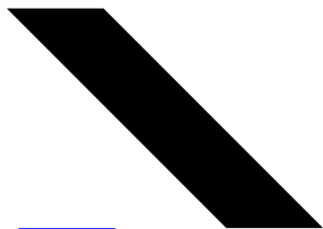


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Q2 2024 GENERAL ELECTRIC CO EARNINGS CALL

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- **H. Lawrence Culp** GE Aerospace - Chairman and CEO
- **Rahul Ghai** GE Aerospace - Chief Financial Officer, Senior Vice President

## CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Robert Spingarn** Melius Research LLC - Analyst
- **Myles Walton** Wolfe Research, LLC - Analyst
- **Sheila Kahyaoglu** Jefferies LLC - Analyst
- **David Strauss** Barclays Bank PLC - Analyst
- **Seth Seifman** JPMorgan Chase & Co. - Analyst
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- **Scott Deuschle** Deutsche Bank AG - Analyst
- **Robert Stallard** Vertical Research Partners, LLC - Analyst
- **Noah Poponak** Goldman Sachs Group, Inc. - Analyst
- **Gavin Parsons** UBS Securities LLC - Analyst
- **Jason Gursky** Citigroup Inc. - Analyst
- **Matt Akers** Wells Fargo Securities, LLC - Analyst

## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the GE Aerospace second quarter 2024 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, Blair Shore from the GE Aerospace Investor Relations team. Please proceed.

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

Thanks, Liz. Welcome to GE Aerospace's second quarter 2024 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.

Now over to Larry.

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## H. Lawrence Culp *GE Aerospace - Chairman and CEO*

Blaire, thanks. And hello, everyone, from London, near the Farnborough International Airshow for GE Aerospace's first earnings call as an independent company. GE Aerospace is an exceptional franchise with the industry's largest and growing commercial propulsion fleet and as the rotorcraft and combat engine provider of choice.

Our installed base of 70,000 commercial and defense engines supports our aftermarket services business, representing about 70% of our revenues that's recurring, resilient, and keeps us close to our customers. Our purpose has never been clearer, to invent the future of flight, lift people up, and bring them home safely. Those last four words, bring them home safely is a serious responsibility.

At any point there are 900,000 people in the sky with our technology underwing, which is why safety and quality are at the center of everything that we do. Our teams around the world understand it is our top priority and paramount in FLIGHT DECK, our proprietary lean operating model.

Here at Farnborough, the conversations we're having are energizing and focused on both the opportunities and the challenges the industry is facing as we work together to meet historic demand and build more sustainable solutions.

We've had a productive few days, including wide body commitments from Turkish Airlines and National Airlines for GE90 engines and Japan Airlines for GENx engines. We're also honored to have British Airways, a new GENx customer, committing to six new Boeing-787s powered by our engines.

The GENx engine offers a 15% lower fuel burn compared to the CF6 and best in class time on-wing resulting in a 70% life of program win rate on the 87 platform. In narrow-bodies, we're pleased the LEAP powered Airbus A321XLR was certified by the European Union Aviation Safety Agency or EASA just last week.

The A321XLR marks the fifth member of the A320 NEO family aircraft powered by LEAP engines with expected entry into service later this year. LEAP, the narrow-body engine of choice offers 15% better fuel efficiency than the CFM56 and will deliver mature levels of time on wing later this year.

In regionals, EMBRAER and GE Aerospace extended our agreement for new CF34 engine deliveries through the end of this decade. This agreement strengthens our partnership as the sole source engine on the E175 and supports the continued growth of regional jets.

Keeping an eye towards the future, this week at the show, we've shared a number of updates about the CFM RISE program. RISE is the suite of pioneering technologies, including open fan, compact core, hybrid electric systems, and alternative fuels. We continue to mature these technologies moving from component level evaluations to more module level tests.

For example, with our partner Safran, we've demonstrated the aerodynamic and acoustic performance of the open fan design with more than 200 hours of wind tunnel tests. Additionally, we've announced a new agreement with the US Department of Energy to expand supercomputing capabilities, which will further advance open fan design. The open fan is the most promising engine technology to help the industry reduce emissions, designed to meet or exceed customer expectations for durability and deliver a step change in fuel efficiency.

Turning to some of the key takeaways on our second quarter performance. Our team delivered double-digit growth across orders, operating profit, and free cash flow, while revenue was impacted by lower output. With FLIGHT DECK, we're well-positioned to accelerate actions to deliver on our priorities for today, tomorrow, and in the future.

In Commercial Engines & Services or CES, air traffic trends remain positive, supporting our services growth and overall profit, which was up more than 20%. Profit growth was driven by 14% internal shop visits growth and improved pricing.

In Defense & Propulsion Technologies or DPT, we delivered very strong profit growth, up more than 70% year over year. Services growth in defense and systems and profit improvement in propulsion and additive technologies drove this increase.

Overall, a very solid quarter and first half, and my thanks go out to the entire global GE Aerospace team. Day in day out, we're focused on delivering for both our airline and airframer customers who simply want and need more of our products and services.

While we've made progress and services this quarter, our new engine output was disappointing, down 20% sequentially. It's a clear challenge that we're facing head-on, accelerating the use of FLIGHT DECK in partnership with our suppliers as we work to solve the

ongoing supply chain constraints.

Last quarter, we shared that the common denominator impacting growth across both services and new engines is constrained material supply, with 80% of material input shortages tied to 9 suppliers across 15 supplier sites. This remains our focus today, we've deployed more than 550 of our engineering and supply chain resources into the supply base to use FLIGHT DECK to work hand-in-hand with our suppliers to identify and resolve constraints.

We made significant improvements in many areas and more than two-thirds of these site's material flow more than doubled sequentially and is currently no longer constraining deliveries. We're grateful for their collaboration, but there's still more to do in the second half.

And we've sharpened our focus on a subset of the remaining priority sites that are still constraining our output. We're making some progress, but not enough to meet demand. I've personally visited several of these sites, and I'm confident we can partner with our suppliers to drive faster progress.

For example, earlier this month, we partnered with one of the priorities suppliers in a joint Kaizen focused at on addressing a key constraint. Our supply chain and engineering teams jointly leveraged FLIGHT DECK to identify action plans to improve throughput significantly aligned with our needs for second-half deliveries.

These actions resulted in a double-digit material input growth here so far in July versus the second quarter average, so a promising start. Overall, we're not yet at a desired state, but we're counting on these joint action plans and continuous improvement to achieve our second half ramp.

So far in July relative to April, we've seen overall higher engine output, stability, and reduced variability. We're also deploying FLIGHT DECK aggressively in our own operations to improve safety, quality, delivery, and cost. And in that order, we've made solid progress in support of our airline customers. For example, our internal shop visit output improved 15% sequentially, and nowhere has this improvement been more visible than with LEAP.

We've continued to decrease our turnaround time for LEAP shop visits to 86 days compared to roughly 100 days in 2023 This yielded a 9% increase in LEAP internal shop visits sequentially. We're also investing both organically and inorganically to meet the expected growth in shop visits as the LEAP fleet doubles by 2030.

As we announced last week, over the next five years, we're planning to invest \$1 billion in our MRO facilities around the world to increase capacity and introduce new technologies to further reduce turnaround time and costs. This includes a recent agreement to acquire dedicated LEAP test cell, unlocking a key constraint in our shop visit output.

Overall, I am encouraged by our progress, but by no means satisfied. I'm confident that in the second half we'll increase engine delivery significantly and continue to grow shop visits in support of our customers. In the quarter while output weighed on revenue, GE Aerospace delivered significant profit and free cash flow growth. Demand remained strong, with orders up 18%. Revenue was up with growth in both segments, services growth combined with price more than offset the lower engine shipments.

Our operating profit was \$1.9 billion, up 37% year over year from services growth, price, and favorable mix. Operating margins expanded 560 basis points to 23.1%. Both operating profit and margin were up significantly at CES and DPT.

Adjusted EPS was \$1.20, up more than 60% year over year. This improvement was driven by increased operating profit combined with a lower tax rate. Free cash flow was \$1.1 billion, up nearly 20%, driven by higher earnings, which more than offset inventory growth from the supply chain constraints I mentioned a moment ago.

Halfway through the year, we're well-positioned with earnings and free cash flow both up significantly year over year and free cash flow conversion of nearly 120%, giving us confidence to raise our full year profit and cash guidance. This continued profit and free cash flow growth, combined with returning approximately \$25 billion of available cash to shareholders will continue to compound returns. Now over to Rahul for the details on our segment results and our guidance.

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

Thank you, Larry, and good day, everyone. Starting with CES. Air traffic growth remained robust with departures up 9% year to date, and we continue to expect to be up high single digits for the full year. Passenger departures are expected to be up high single digits as narrow-body remains solid with the LEAP up nearly 30% in the second quarter, more than 3x that of overall narrow-body market. Dedicated freight departures are now expected to be up mid-single digits versus our prior expectation of low-single digits.

Moving to CES's second quarter results. Sustained commercial momentum drove significant orders growth, up 38% this quarter. Both services and equipment were up more than 35% with strong spare parts demand. Revenue grew 7% with services volume and price more than offsetting lower engine deliveries.

Services grew 14% from mid-teens internal shop visit growth with strength in time and material visits and improved pricing. As expected, year-on-year shop visits grew more than spare parts. Equipment revenue declined 11% from 26% lower engine shipments. This was partially offset by customer mix and price.

Supply chain constraints impacted shipments across both narrow-body and wide-body with LEAP down 29%. Profit was \$1.7 billion, up 21%, with margins expanding 320 basis points, driven by improved performance in services from higher volume, pricing, and mix. Lower engine shipments and improving LEAP services profitability also supported profit and margin expansion. This more than offset the impact of lower spare engine deliveries and increased investments that impacted equipment profit. Taking a step back at CES, we delivered a strong first half with services revenue up 13% and overall segment profit up nearly 20%.

Turning to DPT. The sector remains resilient, with US defense spending expected to grow low-single digits and international up mid-single digits. With FLIGHT DECK, we are focused on running this business better to deliver more predictably while continuing to invest in the future of combat.

We recently achieved a significant milestone, delivering two T901 engines for the US Army's improved turbine engine program or ITEP. For integration and testing on the UH-60 Black Hawk, the T901 engine will ensure that war fighters have the performance power and reliability necessary to maintain significant advantage on the battlefield for decades to come.

Turning to our results. Orders were down 25%, primarily due to timing of orders in Defense and Systems. Defense book-to-bill was 0.9 in the quarter and 1.0 for the first half. Revenue grew 1%. Defense and Systems revenue was down 6%. Engine deliveries were down approximately 60% from supply chain challenges and a tough year-over-year compare when we delivered significantly higher units. This more than offset pricing and services growth.

Propulsion and Additive Technologies grew 16% with growth across several businesses from higher output and improved pricing. Profit was \$344 million, up more than 70% year over year, with margins expanding 580 basis points from higher output, favorable product mix, productivity, price, and the absence of program-related costs.

Through the first half of the year, DPT delivered high-single digit revenue growth and significant operating profit improvement. The business remains well-positioned to deliver growth over the medium term with a backlog of nearly \$17 billion.

Spending a moment on corporate. Adjusted costs and inter-company eliminations were roughly \$130 million, down nearly 40% year over year. This \$80 million improvement is from actions taken to streamline our cost structure, accelerate elimination or wind-down costs, and favorable interest income that more than offset higher inter-company eliminations.

As part of our continued efforts to simplify and focus on our core, this quarter we completed the sale of electric insurance. We also reached an agreement to sell the licensing business and a reinsurance agreement to exit a block of our life and health insurance business. Combined, these actions will result in proceeds of roughly \$700 million of investing cash flow.

Looking ahead, given the strong results and the momentum in our business, we are raising our profit and cash guidance. We are reducing our revenue guidance, given lower engine output expectations. Growth is now projected to be up high-single digits due to lower equipment revenue in CES. We now expect CES equipment revenue to be up high single to low double digits from prior guidance of up high-teens.

This includes our updated full year LEAP output expectations of flat to up 5% year over year. We continue to expect CES services to grow mid-teens, putting overall growth of CES at low-double digits to mid-teens. Consistent with prior guidance, we expect DPT growth of mid to high single digits.

Operating profit is now expected to be in a range of \$6.5 billion to \$6.8 billion, up \$250 million at the midpoint from prior guidance, with margin expansion year over year. This improvement is primarily from CES, with operating profit now expected to be \$6.3 billion to \$6.5 billion from \$6.1 billion to \$6.4 billion previously, reflecting improved services performance and impact of lower equipment sales.

DPT profit guidance is unchanged and corporate cost and inter-company eliminations are now expected to be below \$900 million from approximately \$1 billion previously. Our expectations for interest expense and tax rate are unchanged, and we are raising our adjusted EPS guidance range to \$3.95 to \$4.20, up more than 50% year over year at the midpoint from higher profit growth.

We are also raising our free cash flow guidance to \$5.3 billion to \$5.6 billion, with above 100% conversion of net income, given profit growth. While we still expect to reduce working capital for the year, the improvement is expected to be lower, given the impact of supply chain challenges to inventory. Overall, free cash flow is up approximately \$700 million year over year at the midpoint. All in, GE Aerospace is positioned for significant revenue, profit, and free cash flow growth with strong conversion in 2024. Larry, back to you.

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## H. Lawrence Culp GE Aerospace - Chairman and CEO

Rahul, thanks. As we take flight as GE Aerospace, we have sustained competitive advantages with a tremendous value proposition. With the industry's largest and growing fleets or platforms are preferred by customers across the narrow body wide body and defense sectors, we're aiming to provide entry, industry-leading reliability and durability, prioritizing SQDC in that order.

This means delivering unmatched time on wing and faster turnaround times for our customers. With our deep domain expertise and engineering talent, commitment to innovation, and capacity to invest, we're poised to deliver breakthrough technologies in both commercial and defense.

And with FLIGHT DECK as our foundation, we'll deliver for customers and create exceptional value for shareholders. All in, we expect to grow operating profit to approximately \$10 billion in 2028 and generate free cash flow in excess of net income, creating compounding returns.

We're making meaningful progress to advance our strategic priorities in service of our customers, employees, and shareholders, while keeping an eye towards the future and paving the way with innovation for more sustainable flight. Now, Blaire, let's go to questions.

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## 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?

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# QUESTIONS AND ANSWERS

## Operator

(Operator Instructions) Robert Spingarn, Melius Research.

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## Robert Spingarn Melius Research LLC - Analyst

Good afternoon. I don't know who wants to take this one, but I wanted to ask you, just given the slower ramp on the narrow-body programs as well as the durability issues on the geared turbofan, we've seen airlines extending the lives of older aircraft and engines, are we getting to the point where some of your CFM56 customers are talking about increasing the work scope of their third shop visits or maybe even doing a fourth shop visit?

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## H. Lawrence Culp GE Aerospace - Chairman and CEO

Well, Rob, I think that you really put your finger on one of the important underlying dynamics here, not only in the quarter. But as we think about the second half and even the next few years, the CFM56 is clearly still the workhorse of the industry, right?

I mean, we look at utilization in a time when people thought we might begin to see a little bit of a fade utilization year over year is consistent with the CFM56. Delighted to see the LEAP up 4 points from a share perspective. So overall, GE narrow-body powered propulsion is probably north of 70%. So I think the CFM is going to have a longer life in many fleets. And clearly that's going to help us in the aftermarket, both from a volume and from a scope perspective.

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

Rob, just to maybe add a little bit to what Larry said, just given the dynamics that he mentioned and you mentioned earlier, we are expecting that the peak shop visit that we had previously projected in 2025 and then you start to see the sequential downtick in '26, '27 is what we said at Investor Day.

As we sit here today, we do expect that, you know, shop visits probably plateau at that 25 level for maybe another couple of years and then start declining. So definitely, we are seeing that the platform is getting used and the shop visits will be higher for an extended period of time, and we will see third shop visits and that we're seeing that even with some of the leasers coming out and commenting that the leases are getting extended beyond 14, 15 years for another four or five years. So we will definitely see what you just said.

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## **Operator**

Myles Walton, Wolfe Research.

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## **Myles Walton Wolfe Research, LLC - Analyst**

Hey, good morning. I apologize for the background noise. I'm actually here at the show. I was hoping, Larry you could comment on the 15 supplier sites and 9 suppliers seem to be the source of the bulk of the delays in parts and where that was last year and maybe just if you can bucket the types of products we're talking about at those 15 sites. Thanks.

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## **H. Lawrence Culp GE Aerospace - Chairman and CEO**

Myles, we can hear you loud and clear, we're not we're not too far away, I suspect. I think if you go back to April, what we said was three quarters of the challenge with respect to deliveries was really rooted in these 15 supplier sites, again, with 9 different companies.

And rather than finger point, our mindset was we're going to problem solve and we've gone in deeply again with FLIGHT DECK to really try to understand these constraints at the core and the slide that you see in the deck, I think, is evidence that, that approach that collaborative problem-solving rather than finger-pointing is really yielding results.

We didn't expect that we would see a blanket impact immediately, but to be able to point to two-thirds of those sites showing strong, nearly doubling of their sequential outputs, inputs to us, I think really tells us something, right, that this approach is going to have impact. Unfortunately, we didn't have all of the impact that we would have liked across those 15.

And we need everybody's ore in the water, if you will, we need everybody contributing, particularly with respect to new engine deliveries. But I think given what we have seen here in July, the way that we're working across different commodity classes shows that this approach is a better way to get more not only here in the third quarter or the second half, but as we think about what is a multiyear wrap, right, the airframers that we talk to here at Farnborough, certainly in the airlines as well, no one loves the fact that a new narrow-body order may not be delivered until '29 or '30.

So it's all about the ramp. We've got years in front of us, thankfully, what a wonderful business challenge to have. But I really like the way our suppliers have met us here, embraced the tools, and we just need more time working in this fashion in order to have the fact that we, our airframer, and our airline customers, all desire.

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## **Operator**

Sheila Kahyaoglu, Jefferies.

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## **Sheila Kahyaoglu Jefferies LLC - Analyst**

Hi, Good morning, Larry and Rahul, how are you?

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## **H. Lawrence Culp GE Aerospace - Chairman and CEO**

Good. Thank you, Sheila.

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## **Sheila Kahyaoglu Jefferies LLC - Analyst**

Maybe if I could ask about the CES margins, which were pretty awesome. So just looking at the LEAP deliveries in the quarter, Q1 versus Q2, Q2 had 70 less LEAP deliveries in the quarter. So about a \$10 million profit swing depending upon your loss assumption there. So CES margins of 27% in Q2 versus Q1 of '23 implies that the core service margin improved about 1,000 basis points to 1,500 basis points depending on what you want to choose, so 25% to 35%-plus. So what drove that despite shop visits being better than spares? And how do we think about the second half progression?

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

Yes, no Sheila, it was a good quarter for CES overall. OE volume was weak, as you pointed out, but the service revenue recovered really nicely. And the overall services growth was kind of in line with what we had projected for full year. So it kind of came in exactly what we were thinking.

And the drop-through from services was very strong. The shop visits skewed towards time and material work. And then the work scopes were heavier as well and that helped both revenue and the profit on those shop visits. This, along with pricing and customer mix helped the services profit growth. And in equipment, the engine shipments were lower, but within equipment, we also reduced our spare engine deliveries and higher investments. And that kind of offset the impact of the lower engine shipments. So overall, OE profit was more flattish than anything else.

Now as we look at the trend in first half that gave us the confidence here to raise profit expectations for the full year by, call it, \$150 million to \$200 million at the midpoint of the guide. Now what's driving that are two things. One, the services growth that we just mentioned, all the things that we are seeing we projected that favorability to now flow through into the second half as well, both with work scopes and some of the customer mix being favorable.

And then we lowered our OE revenue output by, call it \$600 million to \$650 million at the midpoint of the guide, and that is helping profit. So that is where you see our CES profit up for the year, \$150 million to \$200 million. And the margins for CES at this level will be flattish for the year. And that is despite this being the first year of 9x shipments. So really, really happy with the way the CES business is coming along

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## **Operator**

David Strauss, Barclays.

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## **David Strauss Barclays Bank PLC - Analyst**

Thanks. Good morning, good afternoon. Larry, can you just maybe dig into this the lower LEAP shipments in the quarter. I know you're talking about things progressing with these 9 suppliers. But at the same time, obviously deliveries were way down the quarter, I would imagine they were 100, 125, short of your internal expectations. Can you kind of just square that things are getting better, but deliveries were a lot lower than expected? Thanks.

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## **H. Lawrence Culp GE Aerospace - Chairman and CEO**

David, I don't want to repeat what I said earlier. I do think one of the things to keep in mind is that there is a timing dynamic relative to when we receive various inputs and win in turn, we convert that into an engine that we can deliver, be it Airbus or Boeing, right.



So April was challenging in a number of ways. We didn't have the recovery in May that I think we had hoped we might see underlying the quarter. Sequentially, it was the net improvement that I mentioned. And that has only continued to build here in July. We haven't seen that somewhat typically slow start to a quarter that I was concerned about.

So there's really nothing more I can say about why the new unit deliveries, LEAP included were disappointing. It is what it is, where we're focused as we think about the rest of the year is how do we deliver more and how do we deliver more reliably?

You'll note that we are adjusting our outlook for LEAP deliveries this year. On a full year basis, we now think we will be somewhere between flat and up 5%, obviously lower than where we thought, but still showing a modest growth.

And more importantly, I think given what we're doing with FLIGHT DECK in the supply base, the expectations we have not only for more inputs, but in turn more outputs, positions us to be at a healthier, more stable, higher exit rate come the end of the year. That's where we're focused. That's what we're sharing with our customers work to do work I think this team knows how to do.

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## Operator

Seth Seifman, JPMorgan.

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## Seth Seifman JPMorgan Chase & Co. - Analyst

Yeah, thanks very much and good morning. I wondered just to kind of follow up on that last question and thinking about the progression on the delivery side, I think you need a pretty significant increase off of the Q2 equipment revenue level to get to the guide for the year. Is it going to be possible to make much progress in Q3? Should we expect much more significant progress in Q4? And any other color that you can provide about the sequential dynamics across the company?

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

Seth, let me start by just kind of maybe talking a little bit about how we think the back half will shape up and Larry can add if there's anything more on the delivery side. Listen, overall, as you look at our first half to second half growth, first half, we've delivered about 9% growth, and that's kind of in line with what we are projecting for the full year.

So our year-over-year growth is going to look similar between first half and second half. The year-over-year growth will be higher in the fourth quarter as both services and OE ramp. So we'll see that now in terms of profit and drop-through, the margins will be higher in 3Q versus 4Q since the 9x shipment impact is going to be primarily in the fourth quarter and corporate expenses will be higher in the fourth quarter as well. So we expect the third quarter margins to be kind of flattish year-over-year since we had a strong 3Q last year.

So now if you look at kind of getting to how 3Q looks operationally, we've had a better start to 3Q. I think Larry mentioned that in his prepared remarks, the number of engines we've shipped here in the third quarter, in the first month of the third quarter in July are significantly higher than what we delivered in the first three weeks in April. So we are seeing sequential progress.

And then if you look at the material input and as we compare the material inputs through the first three weeks in July versus the first three weeks in April, even for these suppliers that have been constraining output in the second quarter, we've seen a significant improvement. So that's going to allow us to drive the sequential improvement here in the third quarter. So I think we are off to a good start more work to do here for sure, but July's been encouraging.

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## Operator

Gautam Khanna, Cowen.

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## Gautam Khanna TD Cowen - Analyst

Yeah, hey, good morning and thank you, guys and good results. So I was curious just to follow-up, could you talk a little bit about how much inventory you're actually absorbing incrementally in the guidance? And maybe if you can speak to what your strategy is with the supply chain, given some folks are constrained, but some folks are probably ahead, given the lower lead projection relative to the start of the year and like are you in the process of slowing down some folks. If you could just talk about that inventory dynamic and what you're absorbing incrementally and any color you can provide. Thanks.

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## **H. Lawrence Culp GE Aerospace - Chairman and CEO**

Well, maybe we'll just take those in reverse order. And I'll start. I think that we really aren't trying to slow down in a meaningful way. We're really trying the way I think about it is we're trying to make sure that we're calibrated with respect to what we need from everybody because as you point out, different folks are in different places as we think about the back half, as we think about '25, as we think about '26, I think part of why this has been so challenging and maybe even head-scratchingly so for some is that the industry was dialed down almost zero in the pandemic.

And what we don't want to do and the reason we do carry probably more inventory today well at year end than we would like is we don't want to turn down the folks that are performing well unduly as we calibrate the ramp rates with those that will in all likelihood paces.

So we've taken a view that in some instances, the inventory is in effect an investment with the supply base for ourselves to make sure that we've got a more predictable ramp. Remember, a lot of lean is rooted in flow and flow really is around availability. And to the extent that we've got some folks that are performing. We don't want to, if you will, penalize them as we think about all that we're going to need from them, not only over the next six months, but frankly, over the coming years.

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

And Gautam you'll see that in our 10Q, I think you're spot on, we've seen significant inventory growth here in the first half of the year, close to \$1.2 billion of inventory growth, which is call it, \$0.5 billion higher than what we grew in the first half of last year, so significant headwind here.

Now with the improvement in output are that we are projecting here for the second half of the year, we do think that while inventory will go grow in the second half of the year, obviously, the pace of growth will slow down significantly here and then it won't be as much of a headwind as it was last year in the second half of the year. So it has been a challenge.

But again, as Larry said, that's something we've been trying to manage and manage it as appropriately as we can. But the good news is despite the \$1.2 billion of inventory growth in the first half of the year, we still had 120% conversion. So strong cash growth, cash was up about \$1 billion year over year in the first half, so we kind of absorbed it, we managed it, and try do better in the second half.

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## **Operator**

Scott Deuschle, Deutsche Bank.

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## **Scott Deuschle Deutsche Bank AG - Analyst**

Hey, good afternoon. Hey, Larry, not to beat the dead horse, but just following-up on Myles' earlier question, I was wondering if you could offer some more detail on those, I guess six or so remaining supplier sites that are the key bottlenecks at this point. Basically, trying to understand if we're down to the investment castings and forgings suppliers at this point or if it's a broader set of bottlenecks and I appreciate not wanting to pointing fingers, but just trying to get a sense for whether there's something in common undergirding this remaining set of suppliers. Thanks.

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## **H. Lawrence Culp GE Aerospace - Chairman and CEO**

I think you've heard me pretty clearly, I appreciate that. I think the common denominator is, frankly, we all need to do better and we need to be more collaborative and fully in problem-solving mode. That's the headset we have at GE Aerospace. I'm convinced while that takes different forms of different suppliers, that is where every one of those 9 suppliers across those 15 sites are. Some made more progress than others, but it's a long race, right? This was not a 90-day sprint. This is a marathon.

And regardless of where folks are from a commodity category perspective, from a geography perspective, publicly held, privately held, it just doesn't matter, right. We've got to get the teams there. We got to go deep with getting into the granular operational detail to solve those problems, unlock those constraints, increase capacity, raise yields, much as I think we've been doing, picked up the pace a bit here, I think in the second quarter and just need to do a lot more of that broadly in the second half.

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## Operator

Robert Stallard, Vertical Research.

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## Robert Stallard Vertical Research Partners, LLC - Analyst

Thanks very much. Good afternoon. Just following on from your earlier comments, Larry, and your confidence in GE's ability to deliver new engines in the second half, what's your confidence in the relative forecasts of the airframers and also their broader supply chain also catching up and delivering the parts.

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## H. Lawrence Culp GE Aerospace - Chairman and CEO

Well, I think we'll leave to our customers' commentary on everything they're managing. We're focused on what we can manage, right. And I think that the updated guide here, the color around LEAP specifically is certainly that of high-confidence, it wouldn't come out of our mouths. It wouldn't be in our prepared remarks otherwise.

But again, work to do work, work I think we're encouraged by with respect to the second quarter impact start to July as well. But we've got a lot of work in front of us. We've got many days to do that work. That's where this team is focused completely, I can assure you.

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## Operator

Noah Poponak, Goldman Sachs.

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## Noah Poponak Goldman Sachs Group, Inc. - Analyst

Hey, good morning, everyone. You show on slide 17 that the CES services orders are growing much faster than revenue and the absolute dollar levels are much higher. I guess, eventually the overall aftermarket has to normalize as we fully recover air travel growth. What's behind that? How much of that is the LEAP and does that suggest that CES services growth can actually accelerate next year versus this year?

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

No, no, you're right. I mean we had a good second quarter on orders, we had a good first half. I mean services orders were kind of, as you said, mid-30s for the for the second quarter, up 30% or so for the first half, strong book-to-bill here and in the first half of the year on top of a good book-to-bill we saw in 2023.

So the momentum is definitely there on the services side. And as you look at the back half of the year, we are expecting the services growth to be a little bit higher in the second half than in the first half, right, both on the shop visits and spare parts on a year-over-year basis.

So we delivered 9% in total shop visit growth in the first half of the year. And if you look at our low to mid-teens guidance on shop visits, that would imply that shop visits will be closer to high-teens in the second half of the year on a year-over-year basis. So that's what we are projecting.

But overall it is in mid-teens services growth and that is consistent with what we think the future years will look like. I think that's what we had when we look at our 2025 outlook, you know, we were projecting continued strong services growth, so it's good to see the strong orders growth, good to see, as Larry said earlier, LEAP gaining share on the overall air traffic departure side as well.

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## Operator

Gavin Parsons, UBS.

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## Gavin Parsons *UBS Securities LLC - Analyst*

Thanks, good morning. I mean, I guess to Rob's question earlier on your extending life of older engines clearly strong demand for both growth and new aircraft, but there's been a couple of airline profit warnings last week or two. So just wanted to ask if you've had any early indications from your discussions with customers, whether it be relating to fleet planning, sensitivity to pricing, or any other changes. Thanks.

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## H. Lawrence Culp *GE Aerospace - Chairman and CEO*

Yeah, I mean, if you would imagine, we follow all that pretty closely both well in the US, here in Europe, globally. We really have not seen any effect on our business. And to Rahul's comments a moment ago, we'll remain watchful, but don't anticipate that.

Again, I think to the to the earlier question with services orders up 36% in CES in the second quarter. That's the way our customers are speaking to us. I look at where we are here in the third quarter, just in terms of how much of the spares activity we have in backlog. I think it's in the 90% range at this point, so well-positioned very early here in the quarter.

And again, I would just also point to the utilization that we see on the CFM56 still strong, no real change this year and the upshot of the LEAP taking 4 points of market share. So the GE-powered narrow-body activity remained strong.

You just take up the comments that we're out here in Europe yesterday, it seemed to be more pricing-oriented than anything else. So we'll keep a weather eye out. But right now, our challenge, our struggle is to keep up with this exceptionally strong demand, both in the aftermarket and again with new make.

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## Operator

Jason Gursky, Citi.

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## Jason Gursky *Citigroup Inc. - Analyst*

Hey, good morning, everybody. Larry, I was wondering if you could just spend a few more minutes on the RISE and maybe provide an update on some development milestones there, how the customer conversations are going at this point. You mentioned that you're showcasing the engine there at Farnborough. I'm just kind of curious what you think customer acceptance is shaping up to look like at this point.

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## H. Lawrence Culp *GE Aerospace - Chairman and CEO*

Jason, I would say that customer interest seems to only build with the passage of time. This is now the third Air Show in a row that I've attended with the RISE engine, the open fan engine front and center here. Obviously, when we talk about RISE, we're really talking about an umbrella of different technology programs, not only the open fan, but also our compact core work, our hybrid electric activity, and everything we're doing on SAF.

But with respect to open fan, I think what we've been sharing with people is that we had a very good first ingestion test with the open fan blade in the first quarter. We are starting our second endurance campaign or test with the high-pressure turbine airfoils. And there's been a lot of work with respect to the hybrid electric elements of that architecture, work that, as you may know, we do with NASA.

I mentioned, I think earlier, the wind tunnel testing that we've done here in Europe in conjunction with Airbus. So there, I think over 200 -- I think maybe it's 250 component level tests, module level tests that we have behind us. This is still a technology development effort, make no mistake about it, right.

We've got a long way to go, but what's interesting, particularly here in Europe, virtually every airline CEO that I talk to starts the conversation with sustainability and are very keen to get our views on SAF compatibility, but also ahead of SAF capacity being available at scale, what are we going to do to enable the next generation of narrow-bodies?

And we go hard and fast to RISE, talk about the progress that we're making with open fan. And I think that is a story that continues to build enthusiasm and support because we know that the ultimate target, that 20% step-up in propulsive efficiency in emissions reduction really is the future of flight.

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

Liz, we have time for one last question.

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### **Operator**

Matt Akers, Wells Fargo.

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### **Matt Akers Wells Fargo Securities, LLC - Analyst**

Hi, good morning, guys. Thanks for the question. I wanted to ask what are your latest thoughts on LEAP kind of breakeven timing, just given volumes are running a little bit lower than we thought and sounds like you're deploying a lot of resources to work through some of these supplier issue? So just curious if that timing has shifted at all.

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

Yeah, Matt. Timing has not shifted. So we expected LEAP services to be profitable here in 2024 and a program to be breakeven in 2025. And LEAP services, in fact, is shaping up a little bit better than what we originally thought as we started the year. And we mentioned that in our prepared remarks.

So that's how the overall program is shaping up. We're making the progress on durability that we were expecting. The LEAP is tracking better than CFM56 at this stage of the lifecycle. We are expecting LEAP performance to be in line with CFM56, our performance on the A320s by the end of the year.

So that is obviously a huge milestone, given all the improvements we've been driving, the HPT blade was the last thing that's in and we expect that to happen here in the fourth quarter. We've completed more than 3,500 hours of testing on that. So that's going really well. So all in, I think LEAP is progressing exactly the way we would have liked, services is striking a little bit better, program should breakeven next year.

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

Larry, any final comments.

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### **H. Lawrence Culp GE Aerospace - Chairman and CEO**

Blaire, thank you. I think just to close, the GE Aerospace team is going to stay grounded in our responsibility that we share to live the purpose to invent the future flight, to lift people up, and bring them home safely. So we really appreciate your time today and of course, your interest in GE Aerospace.

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## Operator

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

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