



GE Aerospace

Edited Transcript

Q3 2025 GE Aerospace Earning Call



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PRESENTATION

Operator

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

I would now like to turn the program over to your host for today's conference, Blaire Shoor, Head of Investor Relations. Please proceed.

Blaire Shoor - *GE Aerospace - Head of Investor Relations*

Thanks, Dustin. Welcome to GE Aerospace's third-quarter 2025 earnings call. I'm joined by Chairman and CEO, Larry Culp; and CFO, Rahul Ghai.

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

Now, over to Larry.

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

Blaire, thank you. And good morning, everyone.

At GE Aerospace, our purpose is simple: we invent the future of flight, lift people up, and bring them home safely. Every moment, nearly 1 million people are flying with our technology under wing, an incredible responsibility that we take seriously.

FLIGHT DECK, our proprietary lean operating model, is how we turn strategy into results. And our exceptional third-quarter and year-to-date results demonstrate FLIGHT DECK in action. We're making meaningful progress to accelerate delivery of our services and products to meet robust customer demand.

And our commitment to ongoing investments in LEAP durability and the future of flight is centered on delivering value to our customers. Guided by our purpose, our team is energized every day to define flight for today, tomorrow, and the future.

Let's take a closer look at our third-quarter performance. Orders were up 2% with solid growth in commercial services, partially offset by the timing of equipment orders in commercial equipment and defense. Year to date, orders are up 13%, with services up 31%. In the third quarter, revenue grew 26% and profit was \$2.3 billion, also up 26%, driven by strong deliveries across aftermarket, OE, and defense. This supported 44% growth in EPS to \$1.66 and over 130% free cash flow conversion.

In Commercial Engines & Services, or CES, we're servicing and growing the industry's most extensive commercial install base. Services demand remains robust, with orders up 32% and services revenue up 28%, as improved material availability helped fulfill customer demand, driving total CES operating profit growth of 35% year on year.

In Defense & Propulsion Technologies, or DPT, we're improving delivery of our leading platforms while developing mission-critical technology. We delivered very solid results with higher output supporting revenue growth of 26%, with profit up 75%. Given our year-to-date results, combined with our fourth-quarter expectations, we're raising our full-year guidance across the board. I want to thank our team and our supplier partners for delivering for our customers and for another quarter of strong performance.

Shifting to slide 5, we continue to experience significant demand for our services and products, and we're encouraged by how FLIGHT DECK is taking hold across the supply chain to deliver on our roughly \$175 billion backlog. Much of this improvement is due to the progress within our Technology & Operations team, bringing together our safety, quality, engineering, supply chain, and manufacturing teams to hardwire problem solving, resulting in improved delivery for our customers.

Our team is working better cross-functionally to deliver improved outcomes and, in turn, accelerating the same type of collaboration with our supply base. For example, this quarter, we partnered with a critical supplier to address several key constraints utilizing FLIGHT DECK tools such as problem solving, 5S, and standard work. This resulted in the supplier improving first-time yields meaningfully and, in turn, delivering a more than 2x increase in their output.

Our priority suppliers also continue to improve shipments against their targets, shipping more than 95% of committed volume for the third consecutive quarter. Greater stability enables us to meet our commitments. As a result of these actions, material input from our priority suppliers continues to grow, up 35% year over year and up high-single digits sequentially. And we continue to advance on our durability roadmap, with our next iteration of the LEAP-1A HPT blade now in production, and that will further enhance output. As you can see, operational momentum is building, leading to significant growth.

CES services revenue was up 28%, with internal shop visit revenue up 33% and spare parts revenue up more than 25% year over year. Total engine deliveries were up 41% year over year and 18% sequentially. Commercial units were up 33%, including record LEAP deliveries, up 40% year over year in the third quarter. Year to date, commercial units are up 19%, with LEAP up 21%. Based on this progress, we now expect to grow LEAP deliveries more than 20% for the full year, up from our prior outlook of 15% to 20%.

Defense units were up 83% year over year, marking the second consecutive quarter of defense output exceeding 80% growth. Additionally, while CFM56 continues to fly for longer and with LEAP's fleet size expected to triple by 2030, FLIGHT DECK is also helping us expand our capacity and capabilities to reduce turnaround times and improve shop visit output, two top priorities to meet the demands of our customers.

For example, we've made progress with LEAP turnaround time at our Malaysia MRO shop. Our team there improved flow and delivered a 30% reduction in engine disassembly time. As a result of actions like these, total LEAP internal shop visit output grew by more than 30% in the third quarter.

We're also investing in incremental capacity to support our customers' growing fleets. This quarter, our XEOS MRO facility in Poland completed its first LEAP shop visits. And our LEAP third-party MRO network also continues to grow rapidly, with external shop visits up roughly twofold.

In addition, we collaborated with our leasing partner for LEAP to reduce the time it takes to redeploy spare engines between customers, resulting in improved spare engine availability. We're also investing nearly \$1 billion in our supply chain to expand capacity, and we're counting on our suppliers to also make like investments to support the growth ahead.

While this is progress, we know there's much more work to do to improve LEAP turnaround times to meet customer expectations. We're accelerating our use of FLIGHT DECK, taking lessons learned, and applying them across our network to deliver a better experience for our customers. This quarter clearly marked another step forward, with year-to-date commercial services revenue and total engine deliveries both up 25%. We're well positioned to ramp further as we go into 2026.

Turning to slide 6. One of the FLIGHT DECK behaviors that guides our company is to be customer-driven in all that we do. Earlier this month, at our GE Aerospace Research Center, we had the opportunity to share how our experience across 2.3 billion flight hours and our roughly \$3 billion of annual R&D investment is enabling continuous improvement in our field performance. For reference, we've posted these materials on our Investor Relations website, and I encourage you to take a look.

We're applying insights from our experience and investments to improve reliability and durability of our products as time on wing remains critical for our customers. For example, the lessons learned from 15 years of enhancing the GENx durability over 2x are being applied to LEAP to achieve the same level of improvement. And we're increasing our investments in LEAP services technologies, such as our analytics-based maintenance, which predicts the optimal time for a shop visit, and repairs which reduce reliance on new material, benefiting both cost of ownership and turnaround times. Combined with our progress on delivery, we're actively working to meet customer expectations on LEAP.

We're also applying similar lessons from GENx and LEAP durability to our next generation of engines. We just launched our second dust test on the 9X, which will continue to mature the design pre-entry into service. This builds upon over 30,000 cycles of testing, including 9,000 endurance cycles, which will make the 9X the most tested engine in our history.

Earlier this month, we began similar dust testing on next-generation HPT blades for our RISE compact core development. This marks the earliest we've ever started this type of testing in development. While we're investing in compact core to mature RISE technologies, there could be applications of these learnings for today's fleet as well. We recently announced the first-ever chief mechanic and architect for our Open Fan technology, making durability a top priority in engine design with an uncompromising commitment to safety.

Our focus on delivering for our customers across current and future platforms is driving success in the marketplace. And a couple of key wins this quarter of note. Korean Air announced the largest fleet commitment in its history with 103 Boeing aircraft powered by GENx, GE 9X, and LEAP-1B engines, plus long-term services. We also secured a commitment from Cathay Pacific for GE 9X engines to power 14 additional 777-9s, bringing their total commitment to 35 777Xs aircraft powered by our GE 9X. These wins build upon our solid backlog and were sold out in effect, both on LEAP and GENx, through the rest of this decade.

Stepping back, we know our customers are counting on us to deliver reliability, predictability, time on wing, and at the right cost of ownership. With FLIGHT DECK, we're making daily progress to meet those objectives, supporting their and our 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 robust services growth and an improvement in engine deliveries, driving substantial earnings and free cash flow. Revenue was \$11.3 billion, up 26%, with both segments growing over 25%. Operating profit was \$2.3 billion, up 26%.

Services volume, price, and productivity were partially offset by OE growth, investments, and higher corporate costs. Operating margins were flat at 20.3%, with margin expansion in both segments offset by corporate cost timing.

Adjusted EPS was \$1.66, up 44%, from increased operating profit, a lower tax rate, and a reduced share count. Free cash flow was \$2.4 billion, up 30%, from higher earnings with over 130% conversion. Working capital and AD&A combined increased by roughly \$300 million from increased inventory. Cash flow from long-term service agreements continued to be favorable, and day sales outstanding declined three days year over year.

Year to date, revenue is up 21%, and operating profit is up more than \$1.5 billion, from 25% growth in commercial services. We have delivered \$5.9 billion of free cash flow, up nearly \$1.3 billion year over year at 115% of net income. Given the momentum during the first nine months, we are poised to deliver another solid year.

Going deeper into the drivers of 44% year-over-year EPS growth. Increase in operating profit drove nearly \$0.35, or 70% of the improvement in EPS, with increased segment profit in CES and DPT partially offset by higher corporate and other costs of roughly \$300 million. The increase in corporate was primarily from timing of reserves for environmental health and safety expenses. Eliminations were roughly \$140 million, up about \$30 million year over year.

Additionally, our tax rate declined from approximately 20% to 15% from benefits of long-term planning projects and timing of favorable audit settlements, improving EPS by \$0.10. Impact from stock buyback actions and reduction in interest expense also contributed to EPS growth.

Taking a closer look at our businesses, starting with CES. In the quarter, orders were up 5%, with services up 32% and equipment down 42% due to timing of some widebody and regional orders shifting from 3Q to 4Q. Revenue was 27%, with services up 28%. Internal shop visit revenue grew 33% from higher volume, widebody workscopes, and price.

Spare parts sales were up over 25% as improved material availability supported increased output. Equipment revenue grew 22%, with engine deliveries up 33%, including LEAP up 40%. This more than offset a sequential and a year-over-year decline in spare engine ratio. Life of program, the spare engine ratio for LEAP remains in low-double digits.

Profit was \$2.4 billion, up 35%. Services margins were strong, driven by higher volume, price, and a favorable shop visit and spare parts mix. This more than offset the impact of higher installed deliveries, including 9X shipments and an increase in R&D spend.

Segment margins expanded 170 basis points to 27.4%, with services revenue growth, mix, and price more than offsetting OE growth and impact from adverse mix. Year to date, CES has delivered revenue growth of 24%, operating profit of \$6.6 billion, up \$1.7 billion year over year, with margin expansion of 210 basis points, while delivering around 20% increase in engine shipments.

Moving to DPT. Orders were down 5% due to timing across quarters. Defense book-to-bill remained above 1 in the quarter and is 1.2 year to date. Our total DPT backlog is at \$19 billion, up \$1.5 billion year over year. Revenue grew 26% in the quarter. Defense & Systems revenue was up 24%, driven by higher engines volume, up 83% year over year, and improved pricing. Propulsion & Additive Technologies grew 29%, with all businesses growing over 20%.

Profit of \$386 million was up 75% year over year. Higher volume in defense at Avio, customer mix, price, and lowered losses at Additive offset continued investments and inflation. Margin expanded 380 basis points to 13.6%. Year to date, DPT has delivered 11% revenue growth, \$1 billion of profit, up 27%, with 170 basis points of margin expansion.

Turning to guidance on slide 11. Given the strong year-to-date performance and trajectory entering the fourth quarter, we are raising our full-year guidance across the board. We expect revenue to grow high-teens, up from our prior outlook of mid-teens.

At CES, we now expect growth of low-20s, up from our prior outlook of high-teens. This is driven by higher services revenue, which we now expect to grow low- to mid-20s, up from high-teens. We continue to expect equipment to grow high-teens to 20%. We now expect DPT growth of high-single digits, up from mid- to high-single digits previously.

Operating profit is now expected to be in a range of \$8.65 billion to \$8.85 billion, up \$400 million at the midpoint from the prior guide. CES operating profit is now expected to be in a range of \$8.45 billion to \$8.65 billion, up \$450 million at the midpoint from prior guide. This reflects the drop through from roughly \$1 billion improvement in services revenue in the second half versus our prior guide and favorable services mix. We expect DPT profit to be in the \$1.2 billion to \$1.3 billion range, up \$50 million at the midpoint versus the prior guide, reflecting year-to-date performance from improved deliveries.

Corporate costs and eliminations are expected to be roughly \$1 billion. Additionally, we are improving our interest expense and tax rate outlook for the year and now expect interest expense of approximately \$850 million and tax rate of 17.5%.

Taken together, we are raising our EPS guidance to \$6 to \$6.20, up \$0.40 at the midpoint, from the prior guide. We are also raising our free cash flow guidance to \$7.1 billion to \$7.3 billion, up \$500 million at the midpoint, primarily from higher earnings. We are all set to close out another excellent year in 2025 and well positioned for continued growth heading into 2026.

With that, Larry, back to you.

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

Rahul, thank you.

I'm encouraged by our progress this quarter, which builds upon our leadership positions across both Commercial and Defense and, in turn, supports the improved financial outlook we're sharing today.

GE Aerospace has sustained competitive advantages. With the industry's largest fleet, 78,000 engines and growing, we have accumulated over 2.3 billion flight hours and have certified seven commercial engine programs in the last 20 years. This experience base keeps us close to our customers and provides unmatched insights on performance, making us the partner of choice. We use these insights to continuously improve our services and products, delivering reliability, predictability, time on wing, and lower costs of ownership.

We offer the best-performing products underwing across our narrowbody, widebody, regional, and defense platforms. Our world-class engineering teams, combined with roughly \$3 billion in annual R&D investment, drive next-gen technology to improve durability, efficiency, and turnaround times, along with advanced defense capabilities. And through FLIGHT DECK, we're turning strategy into results with a relentless focus on safety, quality, delivery, and cost, always in that order.

The GE Aerospace team is poised to deliver exceptional value to our customers and shareholders, and I'm confident in our path ahead. So

with that, let's open it up to questions.

Blaire Shoor - GE Aerospace - Head of 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. Dustin, can you please open the line?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Sheila Kahyaoglu, Jefferies.

Sheila Kahyaoglu - Jefferies LLC - Analyst

Good morning. Good morning, Larry, Rahul, and Blaire.

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

Morning, Sheila.

Sheila Kahyaoglu - Jefferies LLC - Analyst

Thank you. Maybe if we could peel back the layers behind the services outperformance, up 25% year to date, which is pretty phenomenal, and on a dollar basis, up \$750 million sequentially, Q3 versus Q2. So how much of that is pure volume unlock through FLIGHT DECK and the supply chain versus tariff price surcharges? Or any other factors that you would say play into it, and why the step down sequentially in Q4?

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

Yeah. Sheila, let me start. So we agree with you. We had a really strong quarter on services. We were expecting high-teens growth for the year, and year-to-date results, we are at about 25%. So now, we've raised the outlook for the year to be low to mid-20s growth. And the improved outlook is both in our shop visit revenue and in the spare parts. So a lot of that from the strength that we observed in the third quarter.

So if I start with the shop visits, we've had year-to-date growth of, call it, 22%. And what's driving that, as you hinted at, is improved material availability is driving higher volume. So that's a big piece of that.

But along with that, the workscopes continue to increase, so that's helping as well. And the demand environment just continues to be strong. I mean, year to date, our inductions have outpaced output, even with the results that we have delivered. And this improvement in output is especially visible in LEAP. That is up 30% year to date. And part of that is the incremental capacity that we've set up for LEAP.

On the spare parts, the year-to-date results have been equally strong, growth of more than 25%. Orders have remained strong, as Larry mentioned. Our orders services -- orders growth of greater than 30% year to date. But the improved material availability is now helping us achieve those orders and execute on the demand that we are seeing.

And as we look at the fourth quarter, our backlog still remains strong. 90% of the spare parts that we need to ship in the fourth quarter are in the backlog, which is 15 points higher than where we have been historically. So really strong external LEAP, shop visits up 2x is helping, with single-digit growth in total worldwide shop visits in CFM56 is helping. So all that -- so again, as we look at that, it's set us up for really well, not only for '25, but also for '26.

Now, as we think about the fourth quarter, we typically have a seasonal step-down in our third quarter to fourth-quarter revenue, largely driven by spare parts, because you don't expect the same level of improvement on material availability, a little bit of seasonality and demand. But still, if you step back and look at the full year, really strong year, and versus where we were in July, more than \$1 billion of revenue increase in the services revenue, and that's a large part responsible for the incremental \$450 million of guidance raised on profit for CES.

Operator

Doug Harned, Bernstein.

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

Yes, good morning. Thank you.

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

Morning, Doug.

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

Morning, Doug.

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

You've been talking about the improvement in margin -- the margin outlook for LEAP on the services side to get up to sort of services overall margins once you get out to 2028. That's a strong trajectory, but could you talk about how you have -- what gives you confidence in that? Because you're still in the very early days of PRSVs, and I would expect really understanding what the cost is for full shop visits. So how do you think about that 2028 LEAP services margin, and how does price and cost factor in?

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

Doug, I would say that the roadmap to 2028 with respect to LEAP really is something that we're looking to manage every day, really a combination of the field performance that you spoke to and, frankly, what we're doing in our own operations with FLIGHT DECK to make sure we not only have the material availability, the improvements of which you see here in the third-quarter financial results, but also in the underlying operational data points that Rahul just mentioned a moment ago.

As we project that forward, I think we've been making the improvements in the supply base, in the field performance, witness, the durability kit with the 1A that's now in the field, very much, and the cost reductions as well, be they productivity, which material availability really does unlock in our shops, very much in line with our expectations. So there's a lot of work to do between now and 2028. But I think given the multiple levers that we have to pull and the underlying product improvements, that we have the conviction not only behind the strength of today's results, but the roadmap from here, both in terms of the eyes of investors, as you just framed it, as well as customers.

Rahul, anything you'd add there?

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

Larry, just maybe a couple of things to add here, Doug. Larry spoke about the FLIGHT DECK improvement. We spoke about all the improvements that we are driving this year in LEAP output. As we see ourselves to 2030, we expect this 30% year-over-year internal shop visit growth to continue. So the volume is going to be a big piece of that.

And as you think about the external channel, we spoke -- and I think Larry spoke earlier in his prepared remarks about the external channel being up 2x year over year -- I mean, that drives, that unlocks the spare parts revenue stream for us. So that's helping. We also spoke about the investments that we are making on repair technology. That reduces the cost of the shop visit in addition to unlocking our shop visit output.

So all those things are helping, and durability is kind of hanging in there. I think with the introduction of the durability kit, we are very confident of getting to CFM56 levels of performance on LEAP-1A, and then soon on 1B as we look forward to 2028. So all those things are what gives us confidence about the trajectory that we have on LEAP.

Operator

Myles Walton, Wolfe Research.

Myles Walton - Wolfe Research LLC - Analyst

Thanks. Good morning.

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

Good morning, Myles.

Myles Walton - Wolfe Research LLC - Analyst

I was hoping to touch on capital deployment. The operations are all going fantastic. You're generating a ton of cash. The stock price is reflecting it. Where and how do you balance capital deployment, share repurchase in particular at this point, vis-à-vis your stock price? You haven't slowed down your pace. I imagine that gives us good indication that you still think there's good value there. But is the dial going to turn towards M&A at any point, do you think, in the nearer future?

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

Myles, I would say that the capital allocation approach that we and the Board have taken since the spin is very much intact. And I don't really see that changing materially anytime soon. We've talked about what we've described as a balanced approach, first and foremost, making sure we're reinvesting in the business to drive the technology improvements we've talked about here already on this call, which you know well, and the footprint required to support the growth.

Of course, we are going to return capital to shareholders and reserve some when those M&A opportunities, large or small, come along that make sense. We're proud of the fact that we've increased our shareholder returns since the spin up, what, 4x. And as we said back in the summertime, we've increased our return of cash to shareholders to \$24 billion in the '24 to '26 period, which is, I think, up 20% from where we were at the spin.

So from an M&A perspective, we want to make sure we're looking at anything and everything that might make sense in the neighborhood. But investors should continue to see from us a disciplined approach where we really look to strategic fit, then operational value add, and in turn, financial returns. So your question, I think, recognizes the tremendous capacity that we have. But again, organic reinvestment, return of capital to shareholders will be the first two priorities.

But that gives us still, I think, ample room, given the cash flow projections that we have here, to look at things that fortify our existing positions. You saw here in the quarter something that we're really excited about, our \$300 million investment in BETA Technologies, a company that some people are well aware of, others maybe not so much. But we really like the team. We like the underlying technology and our collaboration to co-develop a hybrid electric turbo generator, we think, will yield benefit to both of us, both in defense applications and ultimately in the commercial space.

Operator

Seth Seifman, JPMorgan.

Seth Seifman - JPMorgan Chase & Co - Analyst

Thanks very much, and good morning, everyone.

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

Morning, Seth.

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

Morning, Seth.

Seth Seifman - JPMorgan Chase & Co - Analyst

I wanted to zero in on the spares performance a little bit within services, and kind of given our, I think, usual starting point for how to think about spares is like departure growth. And so outpacing that by a bit, and also dramatically outpacing the outlook that you had for 2025 at the start of the year.

So when we think about what's driving that, is it all material availability? Is there a part of that that comes from outfitting LEAP shops out in the network? And if so, what's kind of the tail on that that allows spares growth to kind of exceed that underlying departure level? And also, given the mix of engines that do internal shop visits versus the mix of engines that are not on internal plants, should we think about CFM56 being the main driver of spares growth?

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

Yeah. So Seth, let me start here. I think you had a lot of the data points that actually drove the performance kind of in your question here.

So if you start unpacking that, I think if you look at the spare parts performance, obviously, we spoke to the orders growth. Orders has remained really strong. And what's driving the orders growth, besides the increase in departures where you started, is a lot of pent-up demand. If you look at the number of shop visits that will be done in 2025 globally, worldwide shop visits, that's still below where we were in 2019. So the worldwide shop visits still have not recovered to the 2019 level. So there's a lot of pent-up demand here on volume. And that's a big piece on why the total demand is kind of outpacing the departures growth.

The second is the increase in worksopes. So we've been talking about increase in worksopes both internally and externally. So if you look at GE90 as an example, the GE90 is now going - 70% of the shop visits haven't gone in for a second shop visit. So we're beginning to see the second shop visits come through. And that could be 60% to 70% heavier than the first shop visit. So that's - the increase in worksopes is a big piece. And the same thing is happening on LEAP; the same thing is happening on nx.

You spoke about material availability. I think that's an unlock here as well because we've spoken about a delinquency continuing to increase. And our output has been increasing, but we are still behind on meeting demand. And that continued even into this quarter, even with the spare parts growth impact. So I think all of that is kind of driving this.

And as we look forward into '26, we still expect that -- we expect departures growth of where we have been in 2025, kind of 3% to 4%. But the number of engines that will come off wing are going to be up double digits. So we do expect this kind of difference between departure growth and spare parts demand to continue for a while, just given everything I've said, plus the engines that are going to come off wing.

So hopefully that answers the question.

Operator

Scott Deuschle, Deutsche Bank.

Scott Deuschle - Deutsche Bank AG - Research Analyst

Hey. Good morning.

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

Good morning, Scott.

Scott Deuschle - Deutsche Bank AG - Research Analyst

Rahul, would you be able to share any of your current thinking on 2026 at this point, particularly as it relates to CES revenue growth and then margins as well? But also, I guess, just more broadly on anything you think is important for us to keep in mind as we sharpen the pencil on 2026.

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

Okay. Let me start, and Larry, please jump in here.

As we think about '26, Scott, first, and especially on the commercial side, the environment today feels better than where we were three months ago. I mean, three months ago, we were expecting second-half departure growth to be kind of flat to maybe low-single digits. Now, it's solidly in the 3% to 4% range. So I think the air traffic growth has stabilized. So '26 feels a little bit better than where we were a couple of months back.

But the more important part here, and it goes partially back to Seth's question a minute ago, is the basic algorithm of the demand and performance on the CES business has not changed. Install base is growing, both on the widebody and on the narrowbody side. As I said, in response to Seth's question, the number of engines that need a shop visit is projected to be up double digits in '26, just based on the number of cycles that they've already flown. And that will add to the demand that's out there. And then the worksopes on widebody, low-single-digit kind of net price increase that we are expecting, which seems reasonable. So we do expect the services business to continue to our overall growth.

And then as we get into -- as you think about specifically on the '26 growth, we don't expect a repeat of the '25 performance. We don't expect '25 growth to be -- '26 growth to be kind of at the '25 levels. But it'll start normalizing towards our double-digit levels that we had projected over the medium term.

And then on the new business, new equipment business, obviously, the backlog is very strong. And we expect, call it, 2,000 LEAP engine shipments and then incremental 9X shipments here, because our volume assumptions on 9X have not changed since we were together back in July. And we do expect 9X losses to kind of double on a year-over-year basis, or more than double on a year over year basis, as we think about 26. So that will offset some of the positive drop through that we will see from services. And then DPT, I think we expect continued mid-single-digit revenue growth, some margin expansion that we outplayed back in July.

So you put all that together, productivity is a plus, but we're facing inflation, we have the 9X losses, so we expect kind of margin expansion opportunities to be limited here. But we are optimistic as we look at '26. We expect revenue growth, strong revenue growth, profit growth, cash, and we think of '26 kind of as a step along the way to 2028. So that's our current thinking, obviously, to put a sharper point on it.

Larry, anything to add?

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

No. Just maybe that we're just in the process of wrapping up our strategy reviews. We'll spend the fourth quarter working through the details of the '26 budget. I think Rahul did a nice job there providing the general contours of that work that is underway. We'll take the Board through it at the end of the year, and then we'll come back at earnings and talk about '26 in more detail. It's basically our practice here.

But I think net-net, we're more or less in line with the '28 framework we talked about back in July, with a lot of good tailwinds in terms of the demand environment and clearly operational momentum building with FLIGHT DECK. But those two dynamics together, I think that's what you're going to see come January.

Operator

Ronald Epstein, Bank of America.

Ronald Epstein - BofA Global Research (US) - Analyst

Yeah, hey. Good morning, everyone.

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

Good morning, Ron.

Ronald Epstein - BofA Global Research (US) - Analyst

Maybe just changing gears a little bit. You called out the work you all are doing on the hybrid electric turbo generator and implications that might have for defense. And your defense business grew quite well during the quarter and also last quarter.

Can you speak to maybe -- can we pull back and get some detail on kind of what you all are doing in defense and maybe what -- from an R&D perspective? And then maybe more importantly, and this is really a question you'd ask the other way around, but what lessons have you all learned in commercial, given the size of the fleet and all the experience you have with commercial engines that you can then apply in the defense world where most other defense contractors just don't have that experience base?

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

Well, Ron, if I maybe take those in reverse order, a lot of the work that you see, or a lot of the work that we've referenced vis-a-vis supply chain with our team in FLIGHT DECK courses through the results, both on the commercial side and on the defense side. Talk about a quarter where you've got revenues up 26%, profit up 75%. Of note, the defense engine output was up 83%. We hung an eight handle on that for the second quarter in a row, I believe.

That really speaks, I think, to the strength of the backlog there. Maybe some of the underperformance a year ago, but the just outstanding work that the teams have done, leveraging a lot of what we've done in commercial and, in turn, the shared supply base. When we look at what we could do, if you will, more commercially, I think we are keen to take advantage of the moment at the Pentagon to share some of our best practices with respect to moving at pace through development cycles, perhaps in how we think about sustainment models to be creative and be responsive to some of the investment and budgetary realities that are out there.

Ron, you know well that the investment that we've seen, that we've put into the business, both government funded and our own, has been concentrated on next-gen platforms, be they sixth-gen propulsion in conjunction with the NGAP program with an eye toward both the opportunities with the Air Force and the Navy, but everything that we're doing to upgrade the Apaches and the Black Hawks with the ITEP, the T901 engine. So there's a lot that's in progress with respect to future platforms.

I think some real opportunities not only to fulfill this incredible backlog that we have in defense, but at the same time, rethink some of the business models, either internal to our customers or in collaboration with them. But here and now, making sure that we are reducing the delinquency, servicing the backlog, as Rahul mentioned a moment ago, and fortunately, the good work that's driving the results on the commercial side are helping us out a great deal on the defense side as well.

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. Robert.

Robert Stallard - Vertical Research Partners LLC - Analyst

Quick question for Larry. You mentioned durability a number of times in your initial comments. I just want to -- following up from that, how the initial performance has been on that new blade on the LEAP-1A? And how long is it going to take to roll that blade out across the install base? Thank you.

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

Well, we're very pleased with the performance of the durability kit on the LEAP-1A, the new blade of which is at the heart of that durability kit. We think that will drive a 2x improvement, I think 8,000 cycles in harsh environments, I think 17,000 cycles in neutral environments. So so far, so good. No surprises in that regard, given the testing. We're in the certification process on the LEAP-1B equivalent and are expecting to see that come through the pipeline in the first half of next year.

So I think, again, we're encouraged by what we are seeing in that regard. It's probably a multi-year effort, Robert, to upgrade the install base. Certainly, having the LEAP-1A durability kit in production helps in that regard. We're tending to the aftermarket now, and we'll do the same thing with Boeing once we're on the other side of certification.

So I'd say no surprises to date. A lot of work still ahead of us, but fundamentally encouraged by the impact that we'll have on durability and, in turn, the performance for our customers.

Operator

Gautam Khanna, TD Cowen.

Gautam Khanna - *Cowen and Company LLC - Analyst*

Thanks. Good morning, guys.

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

Morning, Gautam.

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

Good morning.

Gautam Khanna - *Cowen and Company LLC - Analyst*

Hey, I was wondering if you could elaborate on where you're seeing the greatest improvement in supply chain material availability, because it's been pretty consistent year to date. Has there been any breakthroughs? Or if you could just give us some color inside baseball, please. Thanks.

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

Yes. Well, it's hard to say that we have seen a breakthrough. I really think it is the cumulative, the compounding effect of all the good work that's been underway with intensity and urgency over the last 18-plus months, particularly with the supply base. If you segment where we're seeing that improvement, widebody versus narrowbody, legacy platforms versus new platforms, large suppliers that you would know by name, someone to call my own versus smaller companies you may have never heard of, I can't pull any major theme out because we depend on all of them. And this has been a universal challenge as the airframers have been ramping, the aftermarket given airline demand doing the same, and again, a third stream in the form of defense demand pulling on us and our supply chain.

I think the common denominator is where we've been able to go in around these priority suppliers, which are either current constraints or anticipated bottlenecks, and really getting out on the factory floor, staring down a problem on a machine, an assembly line, whether it be throughput, whether it be yields, what have you, and really driving deep problem solving that's truly collaborative, our best engineers with our suppliers' best engineers, not trying to negotiate there on the factory floor, but to identify the problem, contain it in the short term, and put in permanent corrective action going forward.

There are fits and starts that we manage in that regard every day, every week, but I think we've gotten better at that. And going forward, we want to be not just excellent in that near-term problem solving, but we want to make sure we're investing time and talent in getting out ahead of those sorts of issues, both in the medium and long term. So as we look at readiness going into '26, let alone some of the longer-term conversations that we might have, say, with Airbus as they talk about rate 75 and the path there as Boeing now has the latitude to go up to the next rate break, making sure that we've got visibility and that we're communicating the same with our airframer partners is just critical for our planning purposes and theirs.

So no one breakthrough other than just the relentless application with urgency of our FLIGHT DECK tools deep into the supply base wherever we have a constraint or bottleneck. It's that simple and that hard.

Blaire Shoor - *GE Aerospace - Head of Investor Relations*

Dustin, we have time for one last question.

Operator

Scott Mikus, Melius Research.

Scott Mikus - Melius Research LLC - Equity Analyst

Good morning, Larry and Rahul.

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

Good morning.

Scott Mikus - Melius Research LLC - Equity Analyst

Quick question on commercial aftermarket revenue growth. I mean, historically for the industry, it's been strongly correlated with flight activity and ASK growth, but the commercial services revenue growth has continued to re-accelerate despite the deceleration in ASK growth.

So just has anything structurally changed about the business model that could cause your aftermarket growth to decouple or sustainably outperform ASK growth over the long term? Or is it simply just strength driven by heavier workscopes, better throughput because of a healthier supply chain, and the FLIGHT DECK productivity?

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

Yeah, Scott. So I think Seth had a similar question earlier in the call. So I think some of the things that I said earlier, I'll kind of touch upon. A lot of this, with the disconnect that we're seeing with our demand outlook and the departure of growth goes fundamentally back to the pent-up demand on kind of shop visits. As I said earlier, shop visits in '25 are going to be below 2019 levels. The increase in workscopes that we are seeing, especially on the widebody side, both on GE90, on GENx, as those migrate to the next level of shop visit, so that's a big piece of that.

The growth of our external LEAP channel, we spoke earlier about LEAP channel, LEAP external shop visits being up 2x in the quarter. As we think longer term for the year, we expect LEAP external shop visits to be kind of in the mid-teens, slightly above that range. And as we project that to 2030, we expect that to be ~25%. So that will drive a huge amount of spare parts growth, not only to the LEAP shop visits ramp, but also the participation of external channel growth. And then you combine that with a little bit of price increase that we drive every year.

So I think those are the fundamental reasons why we are seeing this increase in demand. It's pent-up demand, workscopes, and then growth of external channel.

Blaire Shoor - GE Aerospace - Head of Investor Relations

Larry, any final comments?

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

Blaire, thank you. Yeah, just to close, GE Aerospace is an exceptional franchise with enduring competitive strengths and a clear path for continued value creation. Our updated outlook today reflects growing confidence in that trajectory as we deliver for our customers, our shareholders, and the flying public.

We appreciate your time this morning and your interest in GE Aerospace.

Operator

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

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