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<<Sheila Kahyaoglu, Analyst, Jefferies>>

Thank you, everyone. My name is Sheila Kahyaoglu, the Jefferies Aerospace, Defense and Airlines Equity Research Team. Thanks for joining. We have GE here with us, Rahul Ghai. Thank you so much, Rahul and Blaire, for participating in the conference. Rahul has some prepared remarks, then we'll go into questions.

Thanks. Rahul?

<<Rahul Ghai, Senior Vice President and Chief Financial Officer>>

Thank you, Sheila. Good morning, everyone. So it's been a busy summer Sheila – I last saw you at the Farnborough Airshow and it was a good show for us. Two things that stood out at the show. One was the overall strength of the widebody orders that we got, and of particular note was getting British Airways on the 787 platform. So that was extremely encouraging. That's the first time that British Airways has picked our GENx engine for the aircraft. So that was good.

And the second thing was the certification of LEAP engine for the A321XLR. So now with this certification, LEAP is the only engine that is certified for all five variants of the A320 aircraft. So that gives a ton of optionality to the airlines, also gives them a lot of operational leverage. So those two things stood out. We also did our earnings from the air show.

Overall, it was a really good quarter, strong first half, the external demand environment looks very good. Our orders are up mid-20s for the first half of the year, including services, commercial services, orders that were up a little bit more than that. So the demand environment is good. We also translated that external demand environment to strong earnings growth and free cash flow. And if you look at our first half earnings and free cash flow, both up strongly in the first half of the year gave us the confidence to raise the full year on both earnings and free cash earnings up to \$250 million at the midpoint off the guide now a range of \$6.5 billion to \$6.8 billion, up more than \$1 billion year-over-year. Free cash flow now in a range of \$5.3 billion to \$5.6 billion, up \$750 million year-over-year. So, strong progress on both earnings and free cash flow towards our medium term outlook.

Revenue for the first half was up high-single digits, about 9%, not where we wanted to be. That was one disappointment, clearly, in the first half of the year. Our full year guide we adjusted that guide to be high-single digits from low-double digit plus. Given all the engine output challenges that we are having.

Now, as we look between the third quarter and fourth quarter, we expect to make sequential progress in 3Q, but our revenue growth in third quarter on a year-over-year basis will be below where we were in the first half of the year. And that is mainly due to the engine output challenges that we are having. Engine outputs will be up sequentially, but still we expect them to be pressured on a year-over-year basis.

We're doing everything we know how to drive and resolve some of the supply chain issues that we've been having. The FLIGHT DECK operating system that we've implemented in our organization is helping us a lot. We've put in about 550 of our engineering team members in various supplier locations, and they're helping us get to the root cause of issues quicker, finding solutions and then implementing them as quickly as they can. And that should help as we get into the fourth quarter, with fourth quarter revenue growth and output metrics improving from third quarter and on a year-over-year basis showing stronger strength than 3Q and that will help us get to our full year revenue and output targets.

Now switching to profit and margins despite a very tough compare in 3Q. 3Q last year was our – strongest quarter. So tough compares on a year-over-year basis, but we still expect both profit growth and margin expansion in the third quarter. And the third quarter margins will be better than our fourth quarter margins given that we start to recognize revenue on the GE9X engines and the timing of our corporate costs. So, making progress in 3Q on a year-over-year basis, 3Q margin is a little bit better than 4Q. But overall, if you step back, it should be a really good year for us, high-single-digit revenue growth, high teens operating profit growth, couple hundred basis points of margin expansion, 30% plus EPS growth and \$750 million of free cash flow, substantially higher than 100% of conversion from earnings to cash. So good year.

Now, as we look a little bit longer term, we're in the middle of our strategy process and everything that we're going through right now points to continued progress on both earnings and free cash flow as we get into the outer years. LEAP is progressing well. I'm sure Sheila will speak to some of the durability progress that we have been making here on LEAP.

RISE is progressing really well. Very encouraged by the progress we have on RISE. The defense external outlook looks good and gives us confidence on the mid-to-high single-digit revenue growth that we projected for our Defense business.

So the external environment looks good, progress we're making inside the company that helps us get to our 2028 outlook that we had provided at our Investor Day.

Now, maybe spending a minute on 2025 as we sit here right now, because I'm sure that's top of mind for a lot of you. So, a couple of things that puts and takes between where we were in March and where we are now. First, 2024 is about \$400 million better on operating profit than we were in March. So, there is a higher starting point as we think about 2025.

Also, given the engine output challenges for this year, some of that output has moved into 2025. So that obviously puts a little bit of pressure on 2025 relative to where we were in March. We're still working with Boeing to figure out exactly what the demand and volume projections will be for the GE9X Engine for 2025 and that will be a key factor that will go into the final guidance that we provide early next year in January.

Now, as we think about the commercial services outlook, first, if you look at 2024, while the departures are now above 2019 levels, call it three to four points, the shop visit versus 2019 are still down seven to eight points. So that gives us an indication that the strong orders momentum that we've seen in the first half of the year and in 2023 should continue.

Second, the LEAP profitability is shaping up to be better this year than what we had thought back in March. As we look to our more mature fleet, CFM56 and GE90. The CFM56 is holding its share of cycles at the mid-50s level. The retirements have been lower through the first seven months of the year than they were in 2023. And now, as we said earlier on our earnings call, we expect that shop visits will peak in 2025, but then they'll plateau at that level through 2027 versus starting to decline in 2026, as we had said on Investor Day. So it doesn't help 2025 much, but points to continued strength in 2026 and 2027.

On GE90, the scope is a little bit better than what we thought back in March, and we saw that come through even our second quarter results. So the scope is better. And so if you put all of this combined with our high single-digit price increases on a gross basis, mid single-digit on a net basis that we implemented this year, that points to another good year on services for 2025.

So to summarize, Sheila at the outset, better year on 2024 than we thought getting into the year should be a strong year on all metrics. Indications are good for 2025 from where we sit. And then all of this points to continued earnings and free cash flow growth towards our 2028 outlook and the free cash flow that we are generating we are returning that to our shareowners, including about \$6 billion this year between share buyback and dividends. And that will continue as we go into 2025 and beyond, which just compounds the earnings growth story for our shareowners.

So I'll pause here and let you take the conversation wherever you want to take it.

<<Sheila Kahyaoglu, Analyst, Jefferies>>

Nobody sums up a story in four minutes like you do, Rahul. So thanks for that. So maybe let's start on the good stuff. One of the most significant takeaways for me, from Farnborough was the lack of planes, but also the GE services margins were superb. So if we could talk about the profit raise with better services, not necessarily less OE headwind, you name it, whether it was price, mix, work scope.

So talk us through those dynamics and what you saw really benefit services profitability. And then you just mentioned airlines and the issues that they're having, how it impacts, if you're seeing any shifts in customer demand there.

<<Rahul Ghai, Senior Vice President and Chief Financial Officer>>

Yeah. So let's start with 2Q earnings, Sheila, and we'll kind of maybe transition that to full year, and we can talk a little bit about the airlines. So I think what Sheila is talking about on the second quarter earnings call, we had a strong quarter. And the question that came up on the call, I think, Sheila, you brought that up was, how much of that was driven by engine output shortfall and how much was driven by services strength.

So in the second quarter, our – while we shipped fewer engines on the install side, we also shipped fewer engines on the spare side. And if we add the R&D investments that we are making, the – there was not a lot of incremental profit lift at all from the OE side of the business.

So the entire profit lift in the second quarter came from the services side of the house. And that was because we had good mix, better T&M time and material shop visits, a lot of that was also some of the customer mix that we got. And you combine that with the better scope than I just did mention on the GE90. So those are the things that drove strong second quarter earnings.

So it was largely or entirely services driven. And that is what gave us the confidence to raise the profit by about \$250 million at the midpoint about half of it related to the first half performance, the balance coming from the second half of the performance that we are expecting. And the services side, what is carrying forward is clearly strong demand outlook. So as we get into the third quarter, about 90% of the spare parts are in our backlog and the scope favorability. So those are two things that led us to increase our profit guide for the year, along with the reduction in corporate cost.

<<Sheila Kahyaoglu, Analyst, Jefferies>>

And then airline profitability, how you're seeing there? They're having issues across the board. Are you seeing any changes in customer demand?

<<Rahul Ghai, Senior Vice President and Chief Financial Officer>>

Yeah. That's a good question, obviously, top of mind, so few things there, Sheila. One, the U.S. is clearly seeing the softness. The strength in Asia and Middle East is still continuing. So that helps us, especially with the wide-body, narrow-body fleet on our portfolio. That gives us a good balance between the two sides of the house.

The second thing is that if you look at the GE's departures, the GE departures have been higher year-over-year by 3 points. So the GE departures that are better than the overall market outlook by three points. I think we said that even on the earnings call, that LEAP

is gaining share in the share of cycle. So that is a favorability that we are experiencing, which is helping us.

And then I also just mentioned a couple of minutes ago, the shop visit versus the departure strength. How the departure strengths are still wide, because the departures are growing, but the shop visits have not fully recovered. So that gives us a little bit more visibility into our aftermarket growth. And then you combine that with pricing, I think we feel good about our services growth rate for the back half of the year, despite some of the softness that we are seeing on the airline side.

<<Sheila Kahyaoglu, Analyst, Jefferies>>

And maybe sticking to services, if we could talk about 13% growth so far this year. I believe the guide is to mid teens and it seems a lot of way. The aftermarket supply chain is actually improving outside of the OEM. We'll get to the OE supply chain in a minute. What's gone better on the aerospace supply chain on the aftermarket side? And how do you think about achieving the guidance?

<<Rahul Ghai, Senior Vice President and Chief Financial Officer>>

Yeah. So let's just talk about the guidance first, and then we will get into the supply chain. Our services outlook – revenue growth outlook for this year is mid-teens. We reported 13% growth in the first half of the year. So first half, a little bit of improvement in the second half of the year, but not a lot. The spare parts, as I said, the demand outlook is really good. The orders were up 27% in the first half of the year, coming on top of a really strong year in 2023. So as we get into the third quarter, 90% of the spare parts are in our backlog, which is substantially higher than we have been previously. The scope is on GE90 is good as well. So that gives us the confidence that we'll get to the mid-teens revenue growth on services. So that's not a stretch at all from where we sit right now.

The supply chain is common, Sheila, between the OE and services. So there's not a lot of difference in the supply chain. It's the same parts that are fungible between the two sides. What is different is that for services, especially on spare parts, you don't need all the parts to make an engine that you need to ship. Shop visits, you need fewer parts than you need for OE for a complete engine. So it is easy to complete some of those – to ship a spare part to complete a shop visit than to complete an engine. So it's just the number of parts that are needed to complete a shop visit versus an engine. That is what's driving or helping us a little bit more on the shop visit versus the OE side.

<<Sheila Kahyaoglu, Analyst, Jefferies>>

Got it. Let's talk about LEAP. You just gave some comments on Q3, Q4, cadence. First half LEAP production fell 15%, and we've seen you guys lower that guidance. Now it's flat to up 5% for 2024 on LEAP deliveries, which obviously implies a big second half ramp. Your partner on the program talked about rumblings there may be slowness. How do you think about LEAP guidance for the year?

<<Rahul Ghai, Senior Vice President and Chief Financial Officer>>

Yeah. So as you discussed previously, we have nine suppliers and about 15 supplier sites that we're working hard to get material availability better than where it has been in the past. A lot of work is going in, and as I said in my opening remarks, we have 550 engineers deployed at various supplier locations.

And what we saw in the second quarter, what we're seeing through July and August is that sequentially, material availability is getting better, but it's not getting better at the rate that we would want it to. And that is where all the effort is going in. We are running joint Kaizen events with a lot of our suppliers. Larry was at one of the key supplier locations last week with the CEO of that supplier. They were jointly at one facility trying to understand what's going on because that location is not where it needs to be. So there's engagement right from Larry on down to doing everything we know how to make these issues go away.

Again, sequential progress in the third quarter, third quarter engine output will be better than where it was in second quarter, but still pressure on a year-over-year basis. And then, as I said earlier, with these issues getting resolved, we expect a better fourth quarter than third, but we'll just have to continue to work it, right? There are no easy solutions here, and we're going to keep working this.

<<Sheila Kahyaoglu, Analyst, Jefferies>>

And on LEAP profitability, both from an OE and services perspective, how do we think about reaching breakeven levels? And it's been one of the contributors to better profitability this year.

<<Rahul Ghai, Senior Vice President and Chief Financial Officer>>

Yeah, it has been Sheila, LEAP services is doing better. On LEAP there are a couple of things that are helping us. One, the durability is coming in exactly as we expected, right? We expect LEAP on the 1A for Airbus to achieve CFM56 levels of durability by the time we end this year. So that's a huge milestone for us, and that is helping. The second thing is that, as we said on our earnings call, we've reduced our turnaround time for LEAP shop visits down by about 14% from the average of 2023.

So we're down to 86 days of a LEAP turnaround time in our shop, which is helping us complete more shop visits and therefore accelerate our revenue and profit. So those are the two big contributors here on LEAP. Durability kind of come in exactly the way we expected it, shop visits improving. So that's helping. And we expect the program to break even next year and then OE to be breakeven in 2026, so no change to that trajectory.

<<Sheila Kahyaoglu, Analyst, Jefferies>>

Got it. Maybe if we could double click on the platforms, starting with the CFM56. You talked about 2025 sort of being the peak, but plateauing through 2027, which was our thesis. And I know you can't predict retirements and it's very difficult to do so. So how do you think about challenging those retirement forecasts? And with overcapacity issues in the U.S. market, how do you think about, the CFM56 maintaining that level in 2026 and 2027 services?

<<Rahul Ghai, Senior Vice President and Chief Financial Officer>>

Well, listen, CFM56, it's a great platform, as you know, 19,000 engines in-service today with the average age of 14 years. So 45% of the engines have not seen their first shop visit, 75% of the engines have not seen the second shop visit. So there's a lot of life left in the engine. What has been encouraging in 2023 and 2024, Sheila, is CFM56 maintaining the share of cycles at mid-50s, which is really good. The retirements have been low, and so as we now have pretty good visibility into the flying pattern.

So as we sit here today, we do feel good about the fact that, hey, shop visits grow between 2024 to 2025, peak at that level, but then plateau right through 2027, and the revenue growth should continue beyond that. So shop visits peak in 2027, but the revenue will continue to grow for another couple of years. So it's towards the end of the decade that we see CFM56 revenue starting to decline, but by then LEAP should have caught up. And as we shared at our Investor Day, LEAP is going to start approaching CFM56 levels of profitability by 2028.

Now that may not exactly hold, not because LEAP is not progressing because we expect more out of CFM56, but still by the time we get to 2030, LEAP will absolutely fill any gap that CFM56 may create.

<<Sheila Kahyaoglu, Analyst, Jefferies>>

Okay, maybe let's talk about the wide-body market for a little bit. IATA shows first half of 2024 international capacity is up 17% compared to domestic up 4%. Can you give us a status update on wide-body given moving pieces of 787 production on the OE side and also on services given it represents 40%?

<<Rahul Ghai, Senior Vice President and Chief Financial Officer>>

Yeah, Sheila. This is the part about, our business that I think just is not well appreciated. The fact is that our strength on both wide-body and narrow-body just gives us the ability to benefit from different cycles in the business. Obviously we benefited from the narrow-body recovery the last couple of years. Now wide-body is coming back. So that is really good for us. The freight market is doing really well. So if you look at wide-body, we have about 5,700 engines in-service, close to 60% share of cycles in the global market.

So that is good. The GENx is clearly the platform that is growing and we expect to more than quadruple our production on the GENx between now and 2030 double the installed

base. And 75% of the GENx engines have not seen their first shop visit. So that's a platform that has tons of growth ahead of it. On the GE90, the installed base is fairly stable. But as we are transitioning from the first shop visit to the second shop visit. So about 75% of GE90 have not seen the second shop visit. And that's the transition that helped us in the second quarter. That's the transition that's going to help us here between the first shop visit to the second shop visit between 2025 to 2028. So we are very encouraged by the trends that we are seeing.

And then the freight market continues to do well as well, especially with all the disruption and the geopolitical challenges in the Middle East. The freight market now, we expect that to be up mid-single digits this year and that has been a positive surprise through all the airline softness that we talk about. The strength of the freight market is helping us on the older platforms.

<<Sheila Kahyaoglu, Analyst, Jefferies>>

And maybe just double clicking again on the GE90 and the GENx. The GE90, does it have the same dynamics as the CFM56 where the platform is staying on longer and on the GENx aftermarket. Can you give us where you stand on growth and profitability on that platform?

<<Rahul Ghai, Senior Vice President and Chief Financial Officer>>

I think we had a chart last year, Sheila, back in, at the Paris Air Show, we spoke about the GENx profitability being up ~ 4x, from 2013 to 2023. And what has helped us on the GENx profitability are all the things that are going to help us on LEAP, right. It's the improvement in durability. It's the restructuring that we do on different contracts. It's driving productivity in a shop visit. So all those things that have helped improve the profitability on the GENx are going to help us on LEAP.

So overall, if you look at GE90 and GENx, both have more than 50% of our fleet on a service agreement, actually close to 60%. But both these engines have profitability that are above our overall service margins. So that just kind of tells you that these engines are great for the business. And also, the fact is that being on a service agreement is not necessarily bad for the overall levels of profitability. It's just a question of how you price it and how you service it.

<<Sheila Kahyaoglu, Analyst, Jefferies>>

Maybe turning to R&D aircraft profitability. Aircraft development is a hot topic these days, although it seems GE is the only one with cash on its balance sheet. So I don't know how that'd be possible for anyone else. But how do you think about the next generation aircraft platform, the CFM RISE, and engine development beyond the current generation?

<<Rahul Ghai, Senior Vice President and Chief Financial Officer>>

We've been talking about RISE for the last couple of years. Just the reason, Sheila, we are encouraged by it is the fact that we view this as one of the key levers to achieve the sustainability goals of the industry overall, right. We expect that a RISE will be 20% more efficient than the current generation of narrowbodies. So it's hard to replicate that through conventional technology. That's what we believe. And RISE is a suite of technologies. It's not just one thing.

Open Fan is clearly a big piece of that, but it has hybrid electric, it has a compact core, so all these things will also help us the fact that it's a suite of technologies that we are developing and that bridges the gap between what the airlines want and what we can provide. So the progress has been good. We've been talking to both Boeing and Airbus, and you saw Airbus this summer ask for other engine makers to invest in this technology. So we view that as a huge vote of confidence in the technology that we are offering. So we'll continue to work with both airframers and we are expecting ground tests kind of middle of this decade and then flight tests later this decade on RISE.

<<Sheila Kahyaoglu, Analyst, Jefferies>>

And maybe just to close the loop on the commercial business, just going back to the OE side, you mentioned a little bit of comments on 2025, any other thoughts there? Just given it's still very early to see what Boeing does in terms of production?

<<Rahul Ghai, Senior Vice President and Chief Financial Officer>>

You're right. It is early but not a lot more to add from what I said earlier on 2025. Engine output will be higher next year. GE9X will be one of those key factors that will drive our 2025 guidance. So those two things we're still kind of working. As I said on the services side earlier, the services side continues to look good. And Defense & Propulsion Technologies we expect kind of, say, mid- to high-single-digit revenue growth just consistent with what we've said earlier, and profit going faster than revenue.

<<Sheila Kahyaoglu, Analyst, Jefferies>>

And maybe as we look out to 2025, how do you think about the Defense & Propulsion Technologies business as the House and Senate proposals are out?

<<Rahul Ghai, Senior Vice President and Chief Financial Officer>>

Encouraged by the latest Senate Appropriations committee markup that we got Sheila here, the ITEP and the NGAP, the next generation propulsion program both got topped up, so that is – that is good. We also were encouraged by the funding for the Navy next gen fighter by a \$0.5 billion into that program. So that is – that is good as well. Good to see the, the F-15 that has our F110 engines get six more aircraft for next year. So every single program, I think it was progress for us. ITEP was good. NGAP was good. Next gen fighter and the F110.

So all progress for us, but keeps us – keeps us on track for that mid- to high-single digit revenue growth that we projected. We have more than \$11 billion of backlog in our defense business, so sufficient backlog to drive and support that revenue growth that we are projecting. And then on the margin side, we do expect that our profit will grow higher than revenue and at a faster clip than revenue over the next few years.

<<Sheila Kahyaoglu, Analyst, Jefferies>>

So it seems like budgets are good there, but defense volumes were down 30% given some of the supply chain issues.

<<Rahul Ghai, Senior Vice President and Chief Financial Officer>>

Yeah.

<<Sheila Kahyaoglu, Analyst, Jefferies>>

How do you think about those abating and profit has been running slightly ahead of expectations there for this year. So what are the contributors to that, those profit drivers?

<<Rahul Ghai, Senior Vice President and Chief Financial Officer>>

No, it's been, it's shaping up to be a good year, on Defense and Propulsion Technologies overall, I think if you look at the first half of the year, strong revenue growth in the business. Defense engines was down, but the services was good, and propulsion and additive technologies, with the second piece of that segment, they had a really strong growth. Revenue up 16% in the second quarter. So overall, that kind of supported good revenue outlook on that.

We expect the margins to be up more than 200 basis points for the year. So that is good. Strong first half on margin expansion and profit. First half margins were up more than 300 basis points. So that was good. But as you sit here right now, we've guided that that segment profit to be between \$1.0 billion to \$1.3 billion. And first half, we're sitting right at \$600 million of profit. So exactly where we know where you would want to be through the first half of the year.

<<Sheila Kahyaoglu, Analyst, Jefferies>>

Last one for you, capital allocation. You've given us these targets of, or the framework of \$15 billion of buyback, 30% towards a dividend payout. That still leaves you to \$6 billion to \$7 billion earmark for M&A not on a leverage basis. Your leverage is only one time. So how do you think about the opportunities to deploy incremental capital from here? And how active are you in the M&A market?

<<Rahul Ghai, Senior Vice President and Chief Financial Officer>>

Yeah, now, first, listen. It's a good opportunity for us to return the cash on the balance sheet back to the shareowners through buyback and dividends. So, as I said, about \$6 billion this year and then more to come in 2025 and 2026, so that's a positive. On the buyback Sheila, we are going to stick to our core propulsion. That is where the focus is, right, both on the commercial and on the defense side. That is the focus, and that is not going to change. I think Larry has been very, very clear about that.

Where we are thinking about spending money and where we are exploring opportunities is anything that furthers our technology development, whether it's the small acquisition on hypersonics last year, and we'll continue to explore other things that may help us on GE9X or RISE or anything that will take time out of our development cycle on the new technologies that we plan to develop and support our growth opportunities, like on commercial services.

So those are things that we are exploring. But to the extent that there's not enough M&A opportunities out there, \$6 billion to \$7 billion that has been earmarked for M&A, we'll return back that back to shareowners.

<<Sheila Kahyaoglu, Analyst, Jefferies>>

Makes sense. Well, thank you so much. Great GE story that continues. Thanks, Rahul.

<<Rahul Ghai, Senior Vice President and Chief Financial Officer>>

Thank you, Sheila. Thanks for having us.