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CORPORATE PARTICIPANTS

H. Lawrence Culp *General Electric Company - Chairman & CEO*
Rahul Ghai *General Electric Company - Senior VP & CFO*
Steven Eric Winoker *General Electric Company - VP & Chief IR Officer*

CONFERENCE CALL PARTICIPANTS

David Egon Strauss *Barclays Bank PLC, Research Division - Research Analyst*
Gautam J. Khanna *TD Cowen, Research Division - MD & Senior Analyst*
Jason Michael Gursky *Citigroup Inc., Research Division - MD & Lead Analyst*
Kenneth George Herbert *RBC Capital Markets, Research Division - MD & Aerospace & Defense Analyst*
Matthew Carl Akers *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*
Myles Alexander Walton *Wolfe Research, LLC - MD & Senior Analyst*
Noah Poponak *Goldman Sachs Group, Inc., Research Division - Equity Analyst*
Robert Alan Stallard *Vertical Research Partners, LLC - Partner*
Robert Michael Spingarn *Melius Research LLC - MD & Lead Research Analyst*
Ronald Jay Epstein *BofA Securities, Research Division - MD in Equity Research & Industry Analyst*
Scott Deuschle *Deutsche Bank AG, Research Division - Research Analyst*
Seth Michael Seifman *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst*
Sheila Karin Kahyaoglu *Jefferies LLC, Research Division - Equity Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the GE Aerospace First Quarter 2024 Earnings Conference Call. 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, Steve Winoker, Vice President of Investor Relations. Please proceed.

Steven Eric Winoker ***General Electric Company - VP & Chief IR Officer***

Thanks, Liz. Welcome to GE Aerospace's First 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 filing, and website, those elements may change as the world changes.

With the spin-off of GE Vernova successfully completed earlier this month, GE Vernova will report its results separately on April 25th. While included in our consolidated first quarter results, we're focusing today's commentary and Q&A primarily on GE Aerospace.

Now over to Larry.

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Steve, thank you, and good morning, everyone. Welcome to our first earnings call as GE Aerospace, now a pure-play global leader in propulsion, services and systems. We're wholly focused on our aerospace and defense customers, serving the 900,000 passengers in the air right now with our technology under wing. It's an incredible responsibility for our teams globally and why we take safety and quality so seriously.

We'll come back to GE Aerospace in a moment. But before we do, we'll talk about GE on a consolidated basis, which is how we operated for the first few months of this year.

Just 3 weeks ago on April 2nd, we completed GE Vernova spin and launched GE Aerospace, ringing the bell at the New York Stock Exchange after the successful spin of GE Healthcare last year. It was a proud moment that we celebrated with our teams around the world. This marked a new beginning, following the completion of GE's multiyear transformation that strengthened our businesses both financially and operationally.

Thanks to the GE team, we significantly improved our financial position, reducing debt by more than $100 billion since 2018 and enhanced our operational execution by embracing lean with a relentless focus on safety, quality, delivery and cost, in that order, to better serve our customers. Together, we built a strong foundation for our 3 independent companies that, to date, have been shareholder value nearly fivefold.

Now GE begins again, three industry leaders fit for purpose for the next centuryplus, and ready to put their stamp on the world: GE Healthcare, GE Vernova and GE Aerospace. Each carry forward GE's innovative spirit, customer focus and passion to build a world that works, fully focused on their respective missions to lead precision health, the energy transition and the future of flight.

None of this would have been possible without the important work of our teams. I want to express again my sincere gratitude to our incredible people whose unmatched passion and talent have made this achievement possible. Thank you.

If we turn to Slide 4. We had an exceptionally strong last quarter as GE. In the first quarter, orders were up substantially in both GE Aerospace and Power. Revenue was up 10% organically with all segments contributing to the growth. And equipment and services were up across both GE Aerospace and GE Vernova.

Adjusted operating profit was $1.5 billion, up more than $600 million with 300 basis points of organic margin expansion. This was largely driven by pricing and volume, which more than offset investments and inflation. Adjusted EPS was $0.82, up more than 3x year-over-year. And free cash flow was $850 million, up more than 5x or $700 million, driven by higher earnings and a continued reduction in working capital. In all, a very strong performance for GE, reflecting real momentum at both GE Aerospace and GE Vernova.

And now the day has come where we bring our full focus to GE Aerospace. Our commercial propulsion fleet is the industry's largest and youngest, thanks to our world-class engineering and services teams. And in Defense, we're proud to be the rotorcraft and combat engine provider of choice, powering two-thirds of these aircraft worldwide.

A massive part of our business is aftermarket services, representing 70% of our $32 billion in revenue. Importantly, as we meet higher levels of demand today, services enable us to better understand how our technologies are performing. And we use that intelligence to help shape our future product road maps.

Turning to our performance. GE Aerospace had a solid start to the year. In the first quarter, we delivered double-digit revenue and profit growth as well as margin expansion in both businesses with free cash flow doubling year-over-year.

Overall, we have great confidence in our forward trajectory. We're raising our full year operating profit guidance and see a path to our $10 billion operating profit target by 2028.

Turning to Slide 6. As you heard from us last month at our Investor Day, we're keeping our strategy simple: focused on today, tomorrow and the future with safety and quality first. Enter FLIGHT DECK, our proprietary lean operating model to ensure focused execution as a public company. Fundamentally, it's a systematic approach to running our businesses to deliver exceptional value as measured through the eyes of our customers. And it's the best way we know to operationalize flight safety at GE Aerospace in combination with our safety and quality management systems.

Starting with today, we're focused on service and readiness, keeping our customers' fleet flying. We're experiencing a tremendous demand cycle for services as more people fly and fly more often. In the quarter, GE CFM departures were up low-double-digits and we're revising our expectations upward for the year. The onus is on us to meet this demand, and with FLIGHT DECK, we're maintaining the highest standards of safety and quality with greater predictability and speed. Easy to say, hard to do.

A key priority in our Services business is improving turnaround times to increase our shop visit output. We're making progress with LEAP, a significant driver of shop visit growth this year. For example, at our Malaysia site, our joint GE Aerospace and Safran team collaborated to produce average LEAP test cell hours by 30% per engine, and they're working toward a 50%-plus improvement by year-end. As a result, the team has closed 95% of a 100 engine gap in test capacity so far while optimizing LEAP baseline test time, eliminating interruptions and reducing network variation.

Actions like these are improving our shop turnaround time, which for LEAP was down approximately -- or down to approximately 90 days this quarter, a 10% reduction versus our roughly 100 day average last year. While there's more work to do, we're focused on getting engines back in the hands of our customers faster without compromising safety or quality.

For tomorrow, we remain focused on delivering on the ramp. This quarter, total engine deliveries improved up 9% year-over-year, including Defense up over 50%. However, these deliveries were short of our objectives due largely to continued material availability challenges. Thus, we have intensified our efforts working with our suppliers to problem solve these issues. Here is where FLIGHT DECK is key.

Currently, we can track about 80% of our largest delivery challenges back to 15 supplier sites. We're deploying more than 550 engineers and supply chain resources, up 25% from last year, working with them to improve quality and delivery performance. For example, we're problem-solving with one of our Tier 1 suppliers by going to Gemba at their most constrained supplier. We are shoulder-to-shoulder with them, leveraging FLIGHT DECK and working together to identify and break constraints such as labor shortfalls, manufacturing yield issues, identifying alternate material types for raw material shortages and improving flow and lead times. As a result, that constrained supply recently improved output by more than 25% and is no longer pacing deliveries.

We also recently announced we're investing more than $650 million in both our manufacturing facilities and our supply chain this year, reflecting our commitment to strengthening quality and increasing production to better support our customers' long-term needs. At the same time, both airlines and our Defense customers are expanding and modernizing their fleets and choosing to do so with us, adding to our $150 billion-plus backlog and continuing to build our installed base of engines and services.

At the Singapore Airshow, Thai Airways committed to powering its new widebody fleet of Boeing 787 aircraft with our GEnx-1B engines. The GEnx is now a cornerstone of the airline's long-term plan to open new markets and meet surging demand while working to achieve its environmental goals.

American Airlines secured 85 new Boeing 737 MAX Jets, which will be powered by our LEAP-1B. And EasyJet made a commitment for more than 300 LEAP-1A engines for its fleet of 157 A320neo aircraft.

In our Defense & Propulsion Technologies business, we won a new order for F414 engines to power additional KF-21 fighter jets for the Korean Air Force, continuing to build our international business.

And for the future, we're advancing the technology building blocks that will define the future of flight with more than $2 billion of R&D spending this year. For example, we're continuing to make progress with testing in our CFM RISE program. We completed our first fan ingestion test with our full-scale RISE fan blade, and the results were extremely encouraging.

On the Defense side, in partnership with Sikorsky Innovations, our team is finalizing designs for a hybrid electric power systems testbed with a 600-kilowatt electric motor. This will support Sikorsky's plan to build, test and fly a hybrid electric vertical takeoff and landing demonstrator with a tilt-wing configuration.

Altogether, we're running GE Aerospace with customer expectations front and center while delivering breakthrough innovation that will further shape the future of flight. And FLIGHT DECK ensures we work as one team, utilizing one operating model, implement one strategy and ultimately yielding one culture. This will help to lead the industry forward and advance our vision to be the company that defines flight for today, tomorrow and the future.

Now let me hand it over to Rahul.

Rahul Ghai ***General Electric Company - Senior VP & CFO***

Thank you, Larry, and good morning, everyone. Larry, I fully share your enthusiasm as we embark on the next chapter of our journey as a standalone company.

We will cover GE Aerospace's results on a standalone basis, the same as our full year guide. Also, for simplification, our results will be prepared on a reported basis and we are limiting non-GAAP free cash flow adjustments to spin-related matters.

Overall, GE Aerospace delivered a solid start to the year with all headline metrics up double-digits. Demand remained resilient. Orders grew 34% with similar growth rates in both Commercial Engines & Services, or CES, and Defense & Propulsion Technologies, or DPT.

Revenue was up 15% from pricing, spare parts volume and an increase in widebody and defense engine deliveries.

Operating profit was $1.5 billion, up 24% with margins up 140 basis points to 19.1%. The profit growth was driven primarily by price, growth in services volume and favorable mix. Profit and margins were up in both CES and DPT.

Adjusted corporate costs and elimination, including prior GE Corporate costs, were $130 million, down more than 20% year-over-year. Post the GE Vernova spin-off, we expect to incur roughly $300 million for the remaining wind-down of GE Corporate office and close to $250 million to set up standalone infrastructure for GE Aerospace. We will continue to adjust these items from earnings and cash.

Free cash flow was $1.7 billion, doubling year-over-year with higher earnings and working capital improvements offsetting AD&A outflow. Specifically, working capital was a source largely from strong collections and progress payments, while inventory was a headwind.

The strength of our operational and financial fundamentals gives us confidence to return 70% to 75% of our available cash to investors. Earlier this month, we initiated a quarterly dividend at $0.28, a 250% increase. And at our Investor Day, we announced a $15 billion share buyback, a testament to the strength of our balance sheet.

Through a new capital return framework, we are well positioned to create significant shareholder value while we continue to invest in growth, innovation and focused M&A.

Now turning to CES and DPT results. Starting with CES, a $24 billion business with 70% of revenue generated from services. As Larry mentioned, demand continues to be robust. For the year, we now expect departures to grow high-single-digits. Total departures are off to a stronger start versus our prior expectation, growing 11% in the quarter with particular strength in China.

We continue to expect departure growth to moderate throughout the year. We expect passenger traffic growth in high-single-digit range for the year, a slight improvement. Narrowbody remained solid with increased CFM56 fleet utilization and significant LEAP growth.

Further, we now expect freight demand to be up low-single-digits versus a prior expectation of down mid-single-digits. Heightened geopolitical conflicts have increased the need for air cargo and improved its relative economics. As a result, commercial momentum continues.

CES orders were up 34% this quarter. Both services and equipment were up double-digits, largely driven by strong demand for LEAP and spare parts across our platforms. Overall, customer dynamics remained positive with strong order books from both airlines and airframers.

On narrowbody platforms, we won more than 300 LEAP-1B engines and a multi-year services agreement from Akasa Air. And on widebody platforms, recent key wins included 90 GEnx engines for Thai Airways, 16 GE9X engines for Ethiopian Airlines and 10 GEnx engines for LATAM Group. This improving demand backdrop underscores our confidence in our annual guide and longer-term outlook.

Now looking at CES' first quarter results. Revenue grew 16% with volume up low-double-digits and the remainder driven primarily by higher price. Services growth of 12% was driven by pricing and strong spare part volume, which grew faster than internal shop visits that were up 3%, impacted by material inputs challenges. Equipment growth of 31% was driven by pricing and deliveries, which were up 2% with higher widebody engine mix. LEAP shipments were roughly flat year-over-year given the supply chain challenges. As expected, spare engine shipments were down slightly.

Profit was $1.4 billion, up 17% with margins expanding 10 basis-points from pricing, spare parts sales and mix. This more than offset higher inflation investments and a change in estimated profitability on long-term service agreements on a mature platform, which negatively impacted both services revenue and profit by roughly $200 million. At CES, we are pleased with the strong start to the year, delivering significant growth and profit improvement.

Turning to DPT, which includes both Defense and Systems and Propulsion and Additive Technologies. This is roughly a $9 billion business, where services make up approximately 55% of the revenue. Looking at the sector broadly, national defense budgets are growing with U.S. spending expected to grow low-single-digits and international spending up mid-single-digits. Our defense customers ask of us is clear: support their readiness while delivering more and more predictably.

Turning to our first quarter results. Orders were up 34%, underscoring strong demand and the quality of our franchisees with Defense book-to-bill of 1.1x. Revenue grew 18%. Defense unit deliveries grew by 45 engines on an easier compare. This, combined with pricing and growth in classified programs, increased Defense and Systems revenue by 17%.

Propulsion and Additive Technologies grew 19%, primarily from growth at Avio and Unison to support GEnx and LEAP. Profit was $250 million, up 26%, with margins expanding 80 basis-points. Volume and pricing, net of inflation, more than offset investments and defense equipment mix. In all, improved delivery and pricing drove strong revenue and profit growth this quarter.

Given our solid start and constructive outlook for rest of the year, we are raising our full year profit and cash guidance, as outlined on Slide 11. We continue to project at least low double-digit revenue growth.

In CES, we still expect revenue growth of mid-to-high-teens. In Services, we continue to expect mid-teens revenue growth with shop visit output growing faster than spare part sales. We are anticipating reduced LEAP output in the range of 10% to 15% growth, but continue to expect overall equipment revenue growth of high-teens from improving widebody mix.

In DPT, we continue to expect mid-to-high-single-digit revenue growth, primarily driven by equipment growth. Operating profit is now expected to be in a range of $6.2 billion to $6.6 billion, up from $6 billion to $6.5 billion previously.

CES operating profit guidance is now expected to be in a range of $6.1 billion to $6.4 billion, up $100 million at the midpoint from favorable revenue dynamics. DPT profit guidance is unchanged.

In Corporate, we continue to expect cost and eliminations of about $1 billion, including $600 million of corporate expenses and roughly $400 million of eliminations. We now expect margins to expand roughly 50 basis-points for the year versus flat previously.

Now as a standalone company, we are initiating adjusted EPS in a range of $3.80 to $4.05, up more than 30% year-over-year. This includes first quarter adjusted EPS of approximately $0.92, up more than 40% year-on-year. And on free cash flow, we expect higher profit to flow through to cash, delivering more than $5 billion with conversion well above 100% of net income.

Overall, we are encouraged by the strong start and the market environment that gives us confidence to raise our performance expectations for the year. Larry, back to you.

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Rahul, thanks. We're clearly off to a solid start this year. If I close on Slide 12, this captures the essence of GE Aerospace and what we take forward with us. We have an excellent franchise with sustained competitive advantages and a compelling value proposition. Our platforms are preferred by customers across narrowbody, widebody and defense.

We're aiming to provide industry-leading reliability and durability, prioritizing safety and quality first, then delivery, finally cost. This means delivering unmatched time on wing and faster turnaround times for our customers. And we're doing this across the industry's largest and growing fleets.

With our deep domain expertise and talent, commitment to innovation and capacity to invest, we're poised to deliver the breakthrough technologies of the future. And with FLIGHT DECK as our foundation to bring this all together, our team is poised to realize our full potential and deliver exceptional value for our customers and our shareholders. I've never been more confident in our path ahead as GE Aerospace.

Before I pass it back to Steve for Q&A, I'd like to take a moment to recognize him and his many contributions to GE. As you know by now, today is Steve's last call with us after more than 5 years with the company, or put another way, after 22 earnings calls. His dedication and partnership leading the Investor Relations team and serving as a trusted strategic adviser to me and the rest of the leadership team here has been invaluable throughout our transformation.

On behalf of myself and the entire team, Steve, we thank you and wish you the best of luck in your next chapter. And I know Rahul would like to say a few words.

Rahul Ghai ***General Electric Company - Senior VP & CFO***

Thanks, Larry. Steve, I want to personally thank you for your trusted advice and friendship as I joined the company and as we executed the launches of GE Aerospace and Vernova. Your strategic and operating depth and your collaborative style have been instrumental in our transformation. And I know many on this call and on the calls in the year past are appreciative of your responsiveness to their questions and the work you have done to simplify our financial disclosures while communicating our transformation with clarity and candor.

We wish you all the best, and I'll pass it back to you in the spirit of making you work 'til the last day for questions.

Steven Eric Winoker ***General Electric Company - VP & Chief IR Officer***

Larry, Rahul, thank you. I can't go on just without at least one quick comment. It's really been a true honor, privilege and pleasure to serve with you and the rest of the teams at GE and GE Aerospace, a real master class for me. Thank you for always giving our investors and analysts a seat at the table. And I'm deeply grateful, proud of the teams and excited to see what comes next. And I know the futures of GE Aerospace, GE Healthcare and GE Vernova are bright, indeed.

(Operator Instructions) We ask that you please save any GE Vernova questions until their earnings call later this week again. Liz, can you please open the line?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of David Strauss with Barclays.

David Egon Strauss ***Barclays Bank PLC, Research Division - Research Analyst***

Great. Congrats, Steve. One to Larry, Rahul, wanted to ask about the updated LEAP delivery guidance now, 10%-15%, down from 20%-25%. Could you just dig into that a little bit what drove that? Is that constraint on the supplier side? Is that Boeing taking down their schedule? What exactly went into that?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Yes. I would say that, that clearly is a change here in the update this morning. Dave and company are going to talk about their rates tomorrow, I'm sure, on their earnings call so we'll leave that conversation with them.

But rest assured, as we are with all of our customers, we're well calibrated and aligned with respect to what we need to do, what they need from us as we look forward. But I think, all of us, particularly at this moment, before we talk about rates, always come back to make sure we're doing all that we can on the safety and quality front to ensure the best possible performance of our products, both as they're being manufactured and then, in turn, deployed in the field.

Operator

Our next question comes from Ron Epstein with Bank of America.

Ronald Jay Epstein ***BofA Securities, Research Division - MD in Equity Research & Industry Analyst***

If you could talk a little bit about the orders. I mean, they're up pretty spectacularly in Commercial Engines & Services, up 78%; Defense Propulsion & Technologies, up 72%. How much is that volume versus pricing?

Rahul Ghai ***General Electric Company - Senior VP & CFO***

Ron, I would say most of that is volume. And pricing helped across the board, showed up in our revenue growth, margin expansion and in the orders outlook. But of a 34% increase in orders, I would say most of that is coming from base volume growth with price contributing as well.

Operator

Our next question will come from the line of Sheila Kahyaoglu with Jefferies.

Sheila Karin Kahyaoglu ***Jefferies LLC, Research Division - Equity Analyst***

Steve, congratulations on elevating the Investor Relations game to the next level. So one for Larry or Rahul. With Q1 margins, you guys have done a really great job, 19%, 150 bps above the prior guide -- sorry, the midpoint. Rahul, maybe if you could revisit the 2 points of margin headwind you pointed us to last quarter. You mentioned LEAP is lower on that unit volume, maybe about 40 bps of a tailwind versus your original guide and then GE9X is probably consistent. So maybe if you could talk about the puts and takes along with the investment in timing to get us to that mid-17% range for the year?

Rahul Ghai ***General Electric Company - Senior VP & CFO***

Okay. A couple of things in there, Sheila, so let me start with where you started, which was the 2 points of margin headwind that we had spoken to on the January call and on our Investor Day.

So if you go back, we had expected 2 points of margin pressure from LEAP OE ramp, introduction of 9X and the step-up in R&D to support LEAP durability, introduction of 9x and develop the future of flight.

Now with the pushout of LEAP volume, that headwind of the 2 points is marginally lower. But now if you step back and look at our overall guide for the year, listen, a strong start to the year. We are pleased with where we are and that has given us confidence to raise guidance for the full year. And we expect the momentum to fully continue as we get into the second quarter.

And overall, for first half, we are expecting about low double-digit revenue growth and about half of profit and free cash for the year, so far more linear year than we've done in the past. And overall, as you step back and look at the full year, profit up $150 million at the midpoint of our guide to a range of $6.2 billion to $6.6 billion, call it, mid-teens profit growth and more than 30% EPS growth. So it will be a good year if we deliver these numbers.

Operator

Our next question will come from Myles Walton with Wolfe Research.

Myles Alexander Walton ***Wolfe Research, LLC - MD & Senior Analyst***

Good luck, Steve. If I adjust CES for the $200 million long-term contract adjustment, the CES margins are up like 250 basis points year-on-year despite this OE growth at 2x aftermarket growth. And I hear what you're saying, Rahul, on the spares exceeding shop visits. But is there anything else under the surface that really explains that kind of counterintuitive margin expansion?

Rahul Ghai ***General Electric Company - Senior VP & CFO***

No. Listen, we had a good start in CES, $1.4 billion of profit, margin expansion despite the CMR, the service profit adjustment that we had to make in the quarter. But -- and the big drivers here were pricing and customer mix, both on the equipment and on services.

The mix shift from -- mix shift in OE from LEAP to wide-body mix helped, and also in services, our spare part volume growth was higher than shop visit growth. So that mix shift in services was a contributor as well. So encouraging start.

But as you go through the year, keep in mind that the equipment growth will ramp in the second half of the year. Equipment growth will also include 9X shipments. And the services mix will skew back towards the shop visit growth, which we still expect to be maybe low to mid-teens for the year. So the second half profit growth on a year-over-year basis will be lower than the profit growth that we'll see in the first half.

But overall, listen, good start in CES. Gives us confidence to raise the full year for CES in profit by about $100 million.

Operator

Our next question will come from Robert Stallard with Vertical Research.

Robert Alan Stallard ***Vertical Research Partners, LLC - Partner***

Just following on from David's question on the LEAP. Do these issues with ramping up the LEAP have positive implications for the CFM shop visit peak, which I think you've earlier estimated at 2025 and also the height of that peak potentially going forward?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Well, I would say that we do see, I think, some knock-on positive effects in the aftermarket, both here in '24, but also in some of our projections. I think it was just even last month at Investor Day we talked about how retirements have been lower than we would have anticipated thus that should yield 200 incremental shop visits in 2024 relative to what we anticipated.

I think as long as capacity demand remains strong -- I get a report every morning at 6 a.m. This morning showed our departures on a worldwide basis across all of our platforms up 7.8%, right? That's part of what Rahul alluded to in our prepared remarks with respect to our more optimistic outlook with respect to passenger demand. We know the airlines are looking to generate as much lift as they possibly can. And to the extent that they're paced by deliveries, retirements will slow and that installed base will be worked. Unfortunately, much of that came from our factories and we're well positioned to support that.

Does that push out the timing of perhaps peak CFM56? Yes. But it's early, right, and I don't think we're going to try today to take a quarter in that time frame as to when that might occur. But it's a positive dynamic for us in the aftermarket, both with existing platforms and increasingly with the LEAP.

Operator

Our next question will come from Seth Seifman with JPMorgan.

Seth Michael Seifman ***JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst***

Congratulations, Steve, and thanks for all the help. Wanted to ask about shop visit growth and sort of the any challenges around the guidance for the year and the level of visibility that you have sort of starting off with 3% and needing to get to kind of at least a mid-teens type of number for the year and that being constrained by various challenges in supply chain and internal productivity and kind of how much confidence you have around that ramp and shop visit growth.

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Clearly, if we're going to talk about a guide as we are this morning, there's a high level of conviction. But I think you put your finger on what we are working on day in/day out here operationally. I think the financial numbers year-over-year are strong, but we know that we could have delivered -- we could have executed on more shop visits in the first quarter had we had more reliable, more predictable material flow into our shops. That doesn't impact us as much in terms of spare parts, right? We don't need everything necessarily to move that product to customers, but we do in the case of a shop visit.

Some of the FLIGHT DECK examples that I referenced, I think, give us real encouragement that the work we're doing with those top five or top 15 supplier sites is yielding progress. If you look at what we've seen just here in April, we've had a stronger start to the second quarter in terms of shop visit activity, completed outputs than we did in January. That's one comparison that we focus on because we still are not as linear through the course of a quarter as we would like and making good use of the first two, three, four weeks of a quarter is critical for us to be able to deliver the year-over-year let alone on the sequential growth that we would like to see that's embedded here, and most importantly, what our customers need from us given how active they're working these assets.

So the supply chain topic is still relevant. I suspect we'll be talking about it again for the foreseeable future, but I'm very encouraged by the progress that we're making. We just need to make a whole lot more.

Operator

Our next question will come from the line of Ken Herbert with RBC Capital Markets.

Kenneth George Herbert ***RBC Capital Markets, Research Division - MD & Aerospace & Defense Analyst***

Congratulations, Steve.

Steven Eric Winoker ***General Electric Company - VP & Chief IR Officer***

Thanks, Ken.

Kenneth George Herbert ***RBC Capital Markets, Research Division - MD & Aerospace & Defense Analyst***

Okay. Larry or Rahul, you called out freight as a source of growth in the quarter, and I think you raised your full year outlook there from sort of previously down maybe low single to now up low single as we think about the impacts in CES. Is that just in relation to what we've seen in the Middle East? Are you seeing other fundamental changes that give you more confidence there? And how do we think about that impact specifically as we think about the CES business and where you're seeing that flow through?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Well, Ken, you're spot on. We're taking that, again, to level set everybody from an outlook we had us down mid-singles this year to now a positive low-single-digit number. I think there is some influence here from what's happening in the Middle East, but I think we're just seeing a higher demand overall from an air cargo perspective. That will principally course through our wide-body exposure more so than the single-aisles. And I don't think we're going to quantify it here, but that's certainly part of what is behind the improved service outlook, and thus, the improved overall outlook for the rest of this year.

Rahul Ghai ***General Electric Company - Senior VP & CFO***

And Ken, just to add to that, the direct impact is -- all depends on the number of shop visits that kind of move into the year and I think that is -- that always takes time. So there's not a direct correlation here that may show up during the year. But overall, as we look over an extended period of time, as we look at '24, '25 combined, that will definitely be a positive driver.

So we do expect the benefit from the higher freight departures to be in our financials. The question is probably not as much in '24, more in '25.

Operator

Our next question comes from the line of Gautam Khanna with TD Cowen.

Gautam J. Khanna ***TD Cowen, Research Division - MD & Senior Analyst***

Congrats, Steve.

Steven Eric Winoker ***General Electric Company - VP & Chief IR Officer***

Thanks, Gautam.

Gautam J. Khanna ***TD Cowen, Research Division - MD & Senior Analyst***

So you guys mentioned the lower LEAP production this year. I assume it's a function of lower 1B OE needs. But I was curious if you could just help us understand how we should think about the LEAP OE versus spares provisioning mix this year versus your prior expectations?

And also wondering, given the lower rate on LEAP, are you going to be slowing down some of your LEAP suppliers? Or given the comments you made on the constraints within the supply chain, are you still pushing all these guys to continuously raise production? To work as hard as they can?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Let -- maybe we'll take those in reverse order. I'll speak to the supply chain and Rahul can speak to where we are from a spares perspective. As I indicated, we're calibrated with both of our major narrow-body airframers. As we do that, we are always, in turn, calibrating with the supply base. And I think what we want to do in that work is make sure we're not overly indexed, if you will, on the next quarter or 2.

Though important, we want to make sure that we are preparing over the next several years to ramp given the skylines that both of our major airframer customers enjoy today, right? A single-aisle slot is a scarce commodity. If we were out looking for one day we might not find it until the next decade.

That said, I think, everybody, GE Aerospace included, is primarily focused on making sure from a safety and a quality perspective that we are in no way compromising as we think about the wonderful gift we have in the form of these robust skylines. And that's been at the heart of the GE work, the lean transformation for years now, right? You hear us talk about SQDC, safety and quality before delivering cost. It's at the core of FLIGHT DECK and everything that we do.

Rahul, spares?

Rahul Ghai ***General Electric Company - Senior VP & CFO***

So on the spare engines, Gautam, overall, our spare engine ratio came down slightly in the first quarter on a year-over-year basis. And we do expect the full year spare engine ratio to be down as well versus 2023 kind of as we've communicated before. So really not a lot of change here from the change that we are making in the LEAP installed engine output to translate into spare engines. So we still expect the spare engine ratio to be down year-over-year.

And it will be -- it will keep coming down over the next couple of years, I would say, on a gradual basis, Gautam, just given where LEAP spare engine has been in the past. So we expect a continued decline here in the spare engine ratio over the next couple of years gradually.

Operator

Our next question will come from the line of Scott Deuschle with Deutsche Bank.

Scott Deuschle ***Deutsche Bank AG, Research Division - Research Analyst***

Rahul, what does the 100% free cash flow conversion target for 2028 assumed with respect to the proportion of new engines being sold on CSAs in that time frame, particularly on LEAP? Mainly, I'm just curious if you're assuming LEAP mostly migrates to T&M by that time.

Rahul Ghai ***General Electric Company - Senior VP & CFO***

We do expect, Scott, that as we go through the year -- as we go through the decade, I should say, that there will be more T&M contracts. Keep in mind, as Russell spoke at Investor Day, our 2030 target for LEAP is we do about 60% or so of the shop visits between us and Safran and 40% are done externally. And of that 60%, there will be a mix between CSAs and T&M, but we are actively working to increase the T&M population.

Our CBSA partners are standing up, they're helping us as well. So we would see a migration from CSAs to T&M contracts with about 60% of shop visits done in-house here between Safran and GE Aerospace, and the remaining 40% being done by our channel partners.

Operator

Our next question will come from the line of Robert Spingarn with Melius Research.

Robert Michael Spingarn ***Melius Research LLC - MD & Lead Research Analyst***

Congrats to the team for this new chapter and getting through the spins. And congrats to you, Steve.

I wanted to ask you, Larry, about RISE just to change the topic a little bit and the potential here to deliver 20% improvement in fuel consumption versus current engines. Both airframers appear interested in RISE. And if competing engine OEMs aren't providing an open-fan architecture, could we find ourselves in a position where RISE is -- or CFM is the only engine provider for the next-gen narrow-bodies? Or do you think that the need for competition changes that dynamic?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Well, I think where we're focused today is really in 2 areas: one, making sure that we continue to advance the building blocks of the underlying technologies with that engine platform. And that's the work that we're spending a considerable amount of money on as part of that $2 billion R&D budget this year.

I'd say the other area is making sure that we are closely aligned with the airframers, not only with respect to giving them visibility on the progress that we're making in our technology road map, but also working with them as they think about their own product road maps into the future so that there is that, well, that collaborative symbiotic dynamic.

How all that plays out, time will tell. But as we have done over generations, we want to lead with innovation. We want to lead with technology. We want to be close to the airframers. I think everyone understands that we are going to need to see that type of 20%-plus step function in efficiency of the next-gen platform. And as we have in the past, we intend to have GE Aerospace at the forefront.

Operator

Our next question will come from the line of Noah Poponak with Goldman Sachs.

Noah Poponak ***Goldman Sachs Group, Inc., Research Division - Equity Analyst***

Can you hear me?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

We can, loud and clear.

Noah Poponak ***Goldman Sachs Group, Inc., Research Division - Equity Analyst***

Sorry. It cut out on my end. Let me add my congratulations to completing the spin. And Steve, thanks a lot for all your help getting up to speed.

Steven Eric Winoker ***General Electric Company - VP & Chief IR Officer***

Thank you.

Noah Poponak ***Goldman Sachs Group, Inc., Research Division - Equity Analyst***

Rahul, could you spend another minute on the free cash in the quarter and for the full year? If you're going to have any seasonality that looks like the company used to or the industry often does through the year, that number in the first quarter would imply a lot of upside to the 5. I know you highlighted working capital timing. It didn't look like that big of a number in the quarter on an absolute basis. Maybe it's just normally weaker.

So yes, I guess how much bigger is the greater sign on the 5 now than it was before? Or did you just truly have pure timing in the quarter?

Rahul Ghai ***General Electric Company - Senior VP & CFO***

Yes. So Noah, listen, good start on cash. Obviously, pleased. We doubled our free cash flow at Aerospace year-over-year. I would say, first, let's just talk about the quarter, two main drivers here: one was earnings growth; and second was working capital improvement, which kind of offset the AD&A headwind.

And working capital in the quarter was a source of cash versus a use of cash last year, so that was a good turnaround from what we delivered. And the improvements we saw in the quarter came from a days sales outstanding that were down 6 days year-over-year and then progress payments that we got from customers. Inventory continued to be a challenge, given all the material availability, so our WIP levels are high and the trapped inventory that we have increased as well. So overall, earnings growth and working capital kind of drove the first quarter.

And as you look at the full year, to your question on how -- what's changed versus our prior guide, as I said in my prepared remarks we do expect the incremental earnings growth that we are driving to flow through to cash. So we increased the midpoint of our op profit by, call it, $150 million, so call it $100 million kind of post taxes. That should -- our free cash should be up by that.

Again, on a full year basis, same drivers of free cash. Earnings growth and working capital improvement will continue to be the two big drivers. I think the things that we are watching here, Noah, as you go into the second half of the year, is going to be the inventory reduction that we can drive. So that's the one that's -- just given the supply chain challenges, given the demand dynamics with the airframers, so we continue to watch that inventory level and can we drive the same level of inventory reduction that we had initially planned that we'd started the year.

So again, good start. We expect about half the full year cash to be in the first half of the year, and then we do think that the earnings increase that we've driven should flow through our cash as well. And greater than 100% conversion, well above 100% for the year.

Operator

Our next question will come from the line of Matt Akers with Wells Fargo.

Matthew Carl Akers ***Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst***

Congrats, Steve. Can you touch a little bit more on the $650 million investment, just the benefits you expect to get from that? And it looks like there's a lot of additive manufacturing in there. Can you just talk about that opportunity as well?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Well, it really is a broad-based enhancement of our existing domestic footprint. I'm sure you've seen some of the line item details that were publicized locally across the country. I think more than anything, what we wanted to do was make sure we were supporting the fixed capital investments required to operationalize FLIGHT DECK to prepare for the capacity expansions, and in some instances, be it additive or in some other technologies like CMCs that we were getting out ahead of demand to the fullest extent possible. Again, back to the reality of the skylines we talked about earlier.

So that's what we'll do. That's kind of the announcement that we made here recently. I'm sure there will be follow-on announcements as we continue to invest. But the most important investments, I think we make are those that we make in our people. And much of what we do from a training development perspective, especially vis-a-vis FLIGHT DECK, is really geared toward making sure that the people who come in every day are able to do great work and put those fixed assets to their highest and best use.

Operator

This question will come from the line of Jason Gursky with Citi.

Jason Michael Gursky ***Citigroup Inc., Research Division - MD & Lead Analyst***

Yes. Same thing with Noah. Can you hear me all?

Steven Eric Winoker ***General Electric Company - VP & Chief IR Officer***

We can.

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Very well.

Jason Michael Gursky ***Citigroup Inc., Research Division - MD & Lead Analyst***

Does go quiet right before you're allowed to be put on the line. Steve, thanks for all of the help over the last year or so. And Blaire, look forward to working with you. I'm sure you're listening in.

Larry, a clarification point here and then just a really quick question. On the clarification side of things, I think in your commentary about volume on LEAP during your prepared remarks, you talked a little bit about the supply chain being a bit of a constraint there so I want to make sure that that's the case in addition to whatever is going on with Boeing.

And then on the question side of things, the -- just kind of curious how the customer tone is these days on the narrow-body side win with those airlines where you're competing for slots against the Pratt & Whitney engine, whether the tone of those conversations is any more constructive for you in the competitive environment, is looking more optimistic for you on head-to-head competition against the Pratt engine.

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Yes. I would say, as I think both Rahul and I have commented, that we're well calibrated with Boeing on the LEAP-1B requirements. We'll leave it to Dave and Brian to speak to the details tomorrow.

I think as we look forward, not only with that engine, but others, the supply chain challenge that we've touched on in prior calls continues to be relevant.

With respect to new business, I think if you look at our win rates, particularly in the narrow-body space over the last several years, we've been very encouraged by the sequential trend, the upticks that we have seen there. And we will continue to work hard to earn the business that ought to come our way. No change in that posture whatsoever.

Steven Eric Winoker ***General Electric Company - VP & Chief IR Officer***

So Larry, any final comments?

H. Lawrence Culp ***General Electric Company - Chairman & CEO***

Steve, thank you. And again, thanks for everything.

Yes, let me just close. I hope you see here that the GE Aerospace team is moving forward with a greater focus to invent the future of flight, to lift people up and bring them home safely. And with FLIGHT DECK as our foundation, I'm confident we will realize our full potential in service of our customers, employees and shareholders.

We appreciate your time today and your interest in GE Aerospace.

Operator

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