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General Electric

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Seth Seifman: Morning, everyone. Welcome back to the J.P. Morgan Industrials Conference for day two on the aerospace and defense track.

We are very grateful and pleased this morning to kick it off with GE and probably don't need introductions here. We have Larry Culp, CEO, Rahul Ghai, CFO. We have Steve Winoker and Blaire Shoor from investor relations as well.

We're going to kick it off. Larry's going to give us maybe a brief overview with some key points to reinforce from last week's investor day, and then we'll go into Q&A. Larry and Rahul welcome, and over to you.

Lawrence Culp: Seth, thank you. Thanks for having us. Good morning everyone. As you may know, we were here in New York last Thursday. We had the entire team for our investor day. It's three weeks, as of yesterday morning, that we'll be at the exchange, bringing in both GE Aerospace and GE Vernova as standalone companies.

We took advantage of the opportunity last week to let the team tell the story about where GE Aerospace is today and where we're going in in the future.

As many of you may have seen, GE Aerospace is a \$32 billion business leader in propulsion and a number of related product categories. We operate and we will report in two segments. Our Commercial Engines & Services segment is a \$24 billion business, an outstanding franchise, and our \$9 billion Defense & Propulsion Technologies business is strong in its own right.

It obviously has a strong defense or military orientation and number of other critical technologies in the propulsion space.

We had our leadership for both businesses to walk through with those that were in the audience and those that were dialed in the various competitive advantages, the product positions, and the like that set those businesses up, we think really, really well.

What we tried to do was explain the future using a strategic framework that we've talked about before that we refer to as Today, Tomorrow, and the Future. That's relevant to each of our businesses.

With respect to Today, it's all about service. It's all about readiness. Given the demands that both the airlines and, frankly, militaries around the world are pushing, are putting on us with respect to utilization of existing assets.

That's the beauty of this business with 70 percent in the aftermarket. We're close to the product. We're close to the customer on a day in, day out basis.

We like that, but as you've heard us perhaps reference previously, given the supply chain challenges, while we're making progress, we need and will make more over the course of this year and going into next.

When we talk about tomorrow, it's really about modernizing and expanding the fleets that our customers have around the world. We're staring at a tremendous amount of backlog today, both on the commercial and on the military side. A new narrowbody order probably doesn't get delivered until 2030, 2031 at this point.

Obviously, our engines are on many of those airplanes, so we have a significant ramp which will pull on that same supply chain, both within our own operations and with suppliers and their suppliers. That really is, I think, the battleground for us operationally right now.

As if that wasn't enough, when we talk about the future, we're really talking about next generation propulsion, in particular. None of us really know when the next narrowbody will come to market, be that 2035, 2040, but as we have in the past, we are already working today on the critical technologies that will be required for that next step function in efficiency and sustainability.

You may have heard us talk about our RISE program, Revolutionary Innovation for Sustainable Engines. That's really at the heart of a \$2 billion R&D spend this year. We make progress, we update customers on the technical milestones. We feel really good about what is percolating in that regard even though it is a long ways off.

That's really the strategic framework we shared with everyone. We also talked about a financial framework, both with respect to reiterating the guide for this year, which was intact last week. I'll report that it's still intact.

As we talked a little bit about '25, we really then went out and talked about where do we see ourselves in 2028? On a five-year look, we think we're on a path after next year to be on a slightly slower growth trajectory, but still in a high single-digit range, again, largely a function of utilization of today's fleets and the expansion of tomorrow's.

We should see good profit growth off of that in the low double-digit range, and we circled at an approximately \$10 billion OP profit outlook number for 2028, which would be a nice step up from our roughly \$6 billion here. That requires a lot of progress, a lot of work, but I think it's certainly work that we can do and progress that we will deliver.

We'll see good cash conversion on that. We're north of 100 percent conversion currently and think that will be the case again here in 2024. For '28, we talked really around a hundred percent -- recognizing there are puts and takes -- five years out.

We also took advantage of the session last week, especially in the wake of some recent board actions, to share our capital allocation framework. We see approximately \$35

billion of capital available to be deployed in the business. As you would expect for a business like ours, the first order of business is organic, both in the form of R&D and CapEx, but we're going to have ample proceeds to manage from there.

We talked about a very strong bias toward returning capital to shareholders, talked about returning 70 to 75 percent of available capital to shareholders over time, girded by a \$15 billion stock buyback authorization, the board action just a week or so ago in addition to a significant step up of our dividend, which will start somewhere in the 30 percent of net income range.

That leaves a little bit for M&A. We simply reiterated that the first order of business, again, will be organic investments, but there will be things we think we would want to add to our technology stable in and around propulsion, other product categories that we are in. We're really going to take a strategy -- first, operational value and second, approach in pursuing M&A that is return-enhancing for our business.

All in all, it was a good session. Really proud of the work the team put in to pull all that together, let alone, and sharing that with those that were interested. A little bit more work to do, Seth, to get us to the 2nd of April, but we're really excited about that. Both at Aerospace and at Vernova, but not unlike HealthCare, it's been a long journey.

We've been at this for three years. The transformation in GE's been going on for even longer, but we're less than three weeks away from being in a position where we can put much of this one-time work aside. We cannot spend, really, any time on the past. You're going to have three businesses on a go-forward basis that are wholly focused on the future. Again, I can't tell you how excited we are about that.

With that, maybe we'll go to your questions.

Seth: Excellent. Very good. We'll go into Q&A then. I'll start off maybe at a pretty high level.

It's been striking how quickly demand for air travel has recovered from COVID. Everybody knows we're back to 2019 levels and growing, but within the industry -- the demand has recovered -- but the industry has really struggled to ramp back up.

I think GE kind of stands out now in terms of both relative level of execution and relative financial strength. Do you feel like that gives GE some opportunities to shape the industry over the coming years? If so, how do you think about doing that?

Lawrence: I think all of us appreciate just how devastating the pandemic was to the industry, particularly here in the US. We're not the only business, of course, that has really had to build back after being dialed down to almost zero. For a heavy manufacturing business and services business like ours, that has been hard, and it's still hard.

Seth, again, it's a glass, in my view, that's half full, but we have work to do, and we're chasing a moving target, given the airlines and the air framers want more from us

virtually every year. I'm not complaining. I'd rather have that challenge than others. Nevertheless, it's challenging.

There have been struggles, but I think what we're going to try to do is continue to operate very much in the way that we have, keeping safety and quality at the top of the agenda. We talked a good bit about that last week as well with investors.

Then make sure we're doing all we can to serve. If we can serve the airlines, if we can serve our military customers as they look to increase readiness and utilization as they look to expand and modernize, that's the way that will shape the industry.

There are some critical shaping moments. For example, one of the safety initiatives we announced two weeks ago are Aviation Supply Chain Integrity Coalition to make sure some of these borderline counterfeit parts don't make it into the aftermarket.

We've brought a number of people together, Boeing, Delta, to name two, to really put forward an industry-wide effort to make sure that the aftermarket doesn't have that exposure.

Longer term, we talked a little bit about a little bit about RISE. We're the view that the next-generation single aisle, not unlike the last, will in large part be shaped by what's available in terms of under-wing propulsion technologies to the extent we make the progress that we intend to. That will be another shaping moment with respect to product strategy on the back of the airframers.

There's a lot to do, but again, we look at it as more servicing as opposed to shaping the trajectory of the industry.

Seth: When you think about RISE and you think about what the timeframe might be for a platform to emerge that's powered by RISE, how do you think about that right now?

Lawrence: It's out there, and I don't want to divulge any private conversations we've had with the airframers and that's an ongoing dialogue as you might imagine, but I don't think anyone's really in a rush to bring forward the next platform. When I reference 2035, 2040, I'm reiterating what I think Dave and Guillaume and their teams have talked about publicly.

Seth: To follow on the safety and quality topic a little bit, we've all spent a lot of time this year focused on events at Boeing and reading about additional FAA scrutiny. Do you see more FAA oversight coming for the entire industry, and to the extent that it does, how do you think about the way that that might impact GE from here?

Lawrence: I suspect, given if nothing else, what the FAA themselves have said, what the President put forward in the budget proposal earlier this week, we are going to see a bigger and more active FAA.

GE Aerospace for a long time has worked closely with the FAA, IASA, and other regulators around the world. We think that they're a force for good. They help us. We'd

like to think we help them ensure that the flying public is 100 percent confident every time they step on board.

Will that influence what we're doing? I'm sure hard to necessarily project what that means. Again, given the relationship and the ongoing dialogue we have with the FAA, if standards are high and they are so enforced, we welcome that because we push ourselves very much in that way, a lot of our lean transformation.

What we framed last week is FLIGHT DECK, our proprietary lean operating model, really is geared toward that old Toyota mantra of SQDC, safety, quality, delivery, and cost, in that order. That would dovetail quite well with what we've already seen from the FAA, from a safety management system, and from a quality management system, let alone everything else that could come forward.

Seth: Very good. Taking in a little bit more, I thought one of the things that was striking from last week, the question came up about what's changed most from last year, and you guys talked about increased confidence in the LEAP. This would be a good time.

There's a lot of different targets for the LEAP in terms of production, in terms of breaking even on a new engine, in terms of profitability in the aftermarket. Maybe you can level-set everyone where we are in those various dimensions?

Lawrence: I'll kick that off and, Rahul, jump in here. With the LEAP, what is probably most important, it's just to remind everyone that we are sole-source under-wing on the 737 MAX and we enjoy, to date, a program win rate on the neo north of 60 percent. It's higher in the last year.

We have a compelling value proposition that customers have really responded to and you see that in the win rates and in turn in the backlog. When we talk about the confidence that we have, I've always been confident, we have always been confident in the platform. We knew that we would have some early-stage teething pains as is typical with any new engine. Not that customers accept that, not that we do.

We were pleased to see the progress that we've been able to make with a number of the product enhancements that have been put into production.

What our engineering leadership laid out last week was the fact that we will put in the next major improvement in the LEAP-1B this year, a high-pressure turbine blade improvement. That will really bring our durability up to CFM56 levels. That's really the benchmark that understandably customers have in mind.

If you're going to buy a new plane or replace an old one or to fly side by side, you want that in-kind performance, and that really then sets us up to put that into production this year on the 1A, the Airbus version of the engine, and then the Boeing version will be implemented next year.

At that point, we think we will have in production. You'll have to go back and address the installed base capability that is very much in line is, it's those technology milestones that are part of the confidence. Rahul, what would you add?

Rahul Ghai: That leads us to the financial change in trajectory that we are seeing. It's the market share that leads us to doubling the installed base between '22 and '25 and then doubling again between '25 and '30. By the time we get to the second half of this decade, we'll have more LEAP engines flying than CFM56, so it's a huge step up at volume.

You combine the install base with the improvements in product enhancements that have led to improvement of the viability durability, and then where the engine is in its lifecycle entering the service phase of its lifecycle, that leads us to generating profit on the services business this year, the program breaking even next year, and then OE in 2026, and then we go from there.

As we get the charts that we put out last week, basically reference the fact that by the time we get to 2028, LEAP is approaching CFM56 levels of profitability. That's a combination of just engine performing as we expected, the price improvements we've put in place and the volume that we have flying.

With 10 years into service, LEAP is delivering as much profit. We're getting to that point as it's 30 plus year old predecessor, so that just speaks to the potential that this program has over time. That's what you heard from us last week.

Seth: Excellent. Maybe looking at CFM56 and that being the legacy engine, but a legacy engine that is probably going to be with us for some time, talked about shop visits peaking around the mid-decade timeframe.

When we think about after that peak, to what extent are we talking about a peak versus more of a plateau-ish type level of shop visits, and then the potential for price increases and work scope as well, and maybe a little bit about the role that CFM56 will continue to play beyond 2025.

Lawrence: Before you do that, when we say legacy, the image you may have is of an old product ready to be put out of service. When we talk about the fleet, 45% of the fleet hasn't seen its first shop visit yet. We have this incredible installed base, but it's still very youthful.

It's young and with respect to where many of those engines are in the engine lifecycle. I didn't mean to interrupt, but I don't want anyone thinking that this is an engine you'd find it an antique shop or something along those lines.

Rahul: No. That's correct, Larry. Seth, you're correct. What we put out last week was that we do see shop visits growing between '23 and '25, and they are higher than what we had projected maybe a year ago. The big reason for that is that the engine is flying more because it's so youthful than we had expected.

If you look at last year, the departures for CFM56 were in line with the overall growth in the market. CFM56, that's maybe not something we would have expected going in, but that's what's out there, and the engine is just expected to fly longer.

Now as we get into '25, '26, '27, we are expecting that with the increase in the new deliveries, some of the CFM56 engines begin to retire, but that is all contingent on the ramp that we will see from OE. We've been wrong on this before, as I said. Between '23 and '24, our projections on CFM56 utilization have increased.

Is that possible that that continues? Yes, absolutely. As you're laying this thing out, we did project the fact that by the time we get to 2028, the revenue for '24 CFM56 is more like the way we have it in 2023. It steps down from '25, but that is contingent on everything else that happens on the OE side of the market.

Seth: The other part of the eventual ramp-up in new engine production leading to retirements, is that it brings used material into the market. How did you think about that in terms of your profit outlook for CFM56, and the level of used material that might be in the market as we move into the second half of the decade?

Rahul: That's absolutely correct. If you look at the charts that we put out there, you would notice that if you look at the change in the installed base versus the change in profit, you'll see a bigger step down in profit, then you'll see a step down in installed base. That's what we are expecting, that there will be some used material that'll be out there.

Now, it has been at a very, very low rate right now. It's hard to find CFM56 used material in the market, just given the fact that engine is just flying longer, and a number of parked aircraft is half of where they were a year ago.

There is not a lot of used material in the market, but we've built that into the projection. If you look at the charts, you'll notice that you're seeing a step down in profit that is at an accelerated base versus the installed base.

Seth: Last Thursday evening I was working through the model with the new segmentation data that you guys gave us. I noticed that in the Commercial Engine segment, we're going to see the margin rate coming down year on year in 2024. If you could talk a little bit about what's driving that.

What are the profitability headwinds in 2024? There's an expectation that that margin rate is going to expand. Some of those mixed headwinds that are out there, don't necessarily go away. As we move beyond 2024, what changes?

Rahul: Seth, just to maybe clarify 2024 first, when we gave guidance for '24 at the total company level, we spoke about a \$700-ish million profit growth for '24, which is on top more than a billion dollars of profit growth that we delivered last year. We're seeing us we're seeing an increase in profit in '24.

But we did speak about the overall margins for the company being flat through 2023. The way the margins are working is we're seeing incremental benefit from volume, we're seeing incremental benefit from price cost favorability, we're seeing value from all the productivity initiatives that we're putting in place.

That's getting offset by the mixed headwinds that we are facing, and the mixed headwinds are coming from two main areas. One, the ratio of spare engine growth to install engine growth is lower in '24. The spare to install engine ratio is unfavorable relative to '23 in 2024. That mix shift within LEAP deliveries is creating a little bit of a margin headwind.

The other part is that we are launching GE9X this year. Given that these are the initial units that we're launching, that is unfavorable to our mix as well. Combined with a step up in R&D that we are expecting this year to support introduction of GE9X, RISE that Larry spoke about, and improvements in LEAP durability.

Those were the two between the mix and the step up in R&D, we're expecting about two points of margin headwind. As you go through the list of things I've said, most of these things manifest themselves in our Commercial business.

That is where, Seth, you saw the step down in the Commercial margin just because a lot of these things are in Commercial. Even with that, the profits in the Commercial business are growing.

[crosstalk]

Rahul: For half a billion dollars or so. From a dollar perspective, we're still seeing the growth except that the margin is stepping down. Now, as we move forward into 2025, we just spoke about the improvements in LEAP profitability, that helps us turn the trajectory here on CES margins and continues to drive CES profit.

While we see R&D expenses and investments continue to grow, we expect them to grow more in line with the revenue growth so it's not unfavorable to margins. It's the LEAP, it's the step up in R&D investments at the rate of the revenue growth, and all the productivity initiatives that we're putting in place. I think that helps drive continuous profit and margin expansion in CES.

Seth: Excellent. Then maybe one more question for now about the Commercial business. The widebody growth forecast in the mid-single-digit CAGR, there's pricing in there, there were a number of widebody aircraft delivered late in the last decade. How should we think about that growth rate? What's holding that back and what might have to happen for there to be upside to that?

Lawrence: That's a question we've gotten more than a few times in the last week. I think there are folks who were soft circling areas where we were a tad conservative, that being one. I think our response is simply we see some of the other numbers that people have talked about relative to widebody growth.

However, you need to remember that the freight market is under pressure, at least that's our assumption for this year. That's part of why you see a mid-single-digit top-line number on our widebody exposure rather than not. I think the other is the dynamic with the GENX where the product has performed better than we had anticipated thus longer time on wing, good for the customer, good for us.

To the extent those shop visits are pushed out, those rev rec events are pushed out, there's a little bit of a revenue headwind as a result. If there's more business to be had there, of course, given our exposure, we'll be happy recipients of it. Those are probably the two major reasons why we were happy with the mid-single-digit number in the deck.

Seth: Excellent. The flip side we talked about the pressure in 2024 on the CES margin, but in Defense & Propulsion Technologies, it seems like company is looking for some nice margin expansion in that business. Maybe you could talk about some of the drivers there, particularly when I look at other places in my defense coverage, there's been a lot of margin pressure in recent years.

Lawrence: I would say again, step back. This is a \$9 billion segment for us. That number sneaks up on folks. We've got an \$11 billion backlog there. We've had a pretty good run here with respect to the order book. We've had a book-to-bill in the 1.2 range, but our deliveries have not been good.

Part of what we have conviction in from a top-line perspective is continued progress in the supply chain. We talked about that earlier. That will allow us to make better use of that backlog. In doing so, we should see better productivity along with that. That certainly helps.

We see that on the commercial side as well. There's locked-up productivity, there's locked-up inventory in the fits and starts that we go through, given shortages that we may incur by way of our supply base. Anything you'd add there?

Rahul: The only thing I'll add, Seth, is that Riccardo, who runs our Propulsion & Additive Technologies business, he spoke about two areas of investment that we are making in that segment. One is to develop the next generation of turboprop engine that will also have wide application in the unmanned areas.

The other part is Additive, which is critical to the future of the business. We're still making the investments, but the pace of investments is not as the same as last year. The shift, just given where we are in the phase of development of those technologies, that's also helping along with volume and productivity that Larry mentioned here.

Seth: Keeping with that business, another thing that I thought was interesting was the growth rate expected there was above the growth rate that you're looking for the defense budget overall on a multi-year basis. What underlies the ability of that business to grow faster than the market over the next four to five years?

Lawrence: Let's see what the market does here in the end. It's hard to imagine, and given the world that we live in, that we're going to be looking at ongoing CRs and one percent increases in spending.

That said, again on the back of an \$11 billion backlog, our book-to-bill being what it is, the exposure we have with the Apaches and the Black Hawks, the modernization there, let alone all the sixth-gen combat activity that we're involved in, we feel very good about the medium-term as well as the longer-term potential here.

Those are the assumptions that it went into what you saw, obviously north of that low single-digit number, that we talk about.

Seth: Excellent. Moving back to the Commercial business, a question I had about the LEAPs. We'll probably see the initial customers reach the end of their initial CSA agreements or maybe we're seeing some of that now or we'll see it in the near future.

For those customers going forward, is the plan to move this installed base more in the direction of time-and-materials contracts rather than having people on power-by-the-hour plans, and how do you think about that in the new population of engines as well?

Lawrence: With respect to the CSAs that had been written today, they still have a ways to run. Here, we sit March of '24. You're probably talking the early 2030s before they are up for renewal.

Your second question, which is really the critical one. Longer term not unlike the CFM56, we see third parties playing a significant role in the servicing of the LEAP installed base. That will be an open network. That's always been a structural design of our aftermarket services. It's a good thing for us because we avoid capitalizing that entire base.

At the same time, it really creates, if you will, competition, which customers enjoy. Depending on where they are with a particular engine, where they operate in a particular part of the world, they're going to have choices as to what they do with that next shop visit, any of that repair and overhaul activity.

We'll see how that plays out, but that's the intent that we have to replicate the open network we enjoy with the CFM56, with the LEAP, but that's a decade in the making.

Seth: Excellent. I know we're inside of two minutes here. I'll make sure we get to zoom out to a bigger-picture question before we close, and that's about M&A. You had a placeholder in the capital deployment plan for M&A. You talked about it being focused.

If you could talk a little bit more about what that focus means? Does focus mean propulsion or does focus move outside of propulsion? Then maybe about some of what your requirements would be looking at M&A.

Lawrence: What has always served us well is a simple framework where you start with strategic fit, you go to the operational value add, and then you look at real cash on cash returns. That's a framework that will help guide us.

As we think about opportunities, they might be in the supply chain, they might be in related technologies like the small bolt-on we did within a bearing last year in the hypersonic realm.

I don't think our M&A appetite will be limited to propulsion per se, but we underscored the word focus because we didn't want anyone thinking that we're going to be all over the place trying to be an all-singing, all-dancing aerospace company.

We really want to be in the best sectors where we can lead and generate real value for our customers and our returns for our investors. If you pencil out the capital that we suggest we could spend, it's probably \$8-9 billion, so call it \$2.5-3 billion a year. That's really not all that much given our market capitalization, let alone our revenue base.

What the two of us want to do given that we bring a lot of experience is make sure that we're smart about this, that we've retained the license to reinvest inorganically to complement what we do organically, and that will take time. If, for some reason, we don't end up spending that much money, you see our bias with respect to returning capital to shareholders.

Seth: Excellent. I can keep doing this all day, but with that, we are we're at time. Larry and Rahul, thanks very much for being here. We really appreciate it.

Lawrence: Thank you.

Rahul: Thank you, Seth.

Lawrence: Thanks, everyone.

[applause]



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