Edited Transcript

Q4 2024 GE Aerospace Earnings Call

CORPORATE PARTICIPANTS

Blaire Shoor *GE Aerospace - Head of Investor Relations*

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

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

CONFERENCE CALL PARTICIPANTS

Scott Deuschle *Deutsche Bank - Analyst*

Myles Walton *Wolfe Research - Analyst*

Ron Epstein *BofA Global Research (US) - Analyst*

Sheila Kahyaoglu *Jefferies - Analyst*

Doug Harned *Bernstein Institutional Services LLC - Analyst*

Robert Stallard *Vertical Research Partners - Analyst*

Seth Seifman *JPMorgan - Analyst*

David Strauss *Barclays Capital Inc. - Analyst*

Jason Gursky *Citi - Analyst*

Gavin Parsons *UBS Securities LLC - Analyst*

Robert Spingarn *Melius Research - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the GE Aerospace fourth-quarter 2024 earnings conference call. (Operator Instructions) As a reminder, this conference is being recorded.

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

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

Thanks, Liz. Welcome to GE Aerospace's fourth-quarter and full-year 2024 earnings call. I'm joined by Chairman and CEO, Larry Culp; and CFO, Rahul Ghai.

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

Now, over to Larry.

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

Blaire, thank you. And good morning, everyone. Head of Investor Relations, that has a nice ring to it, Blaire. I hope everybody saw our announcement last week relative to Blaire's promotion. She's excited. We're excited.

2024 was a year for the history books at GE Aerospace. In April, we became a standalone public company, the culmination of GE's multi-year transformation. Nothing has been more front and center than our purpose: inventing the future of flight, lifting people up, and bringing them home safely. Those last four words remain our top priority with nearly 1 million passengers in flight at this very moment with our technology underwing.

We launched FLIGHT DECK, our proprietary lean operating model, to better serve our customers through a relentless focus on safety, quality, delivery, and cost -- in that order. Seeing our teams in action through the year with FLIGHT DECK from Malaysia to Wales to Asheville and elsewhere truly was energizing.

Commercial momentum continued as we signed several key services agreements and received orders for more than 4,600 commercial and defense engines. In narrow-bodies, this included American Airlines' commitment for 85 new Boeing 737 MAX jets powered by our LEAP-1B. In wide-bodies, we were honored to add a new GEnx customer, British Airways. And in defense, we received an order from the Polish Armed Forces for 210 T700 engines to power the 96 Boeing AH-64E Apache Guardian helicopters.

To close the year, we received certification of the LEAP-1A HPT durability kit. Combined with the three prior durability enhancements that are performing well in the field, it's designed to increase LEAP time on wing by more than two-fold current levels and achieve parity with the CFM56's performance today. Just this week, in fact, we shipped our first retrofit engines to customers with the new hardware. It's also easier to produce supporting our output trajectory going forward.

At the same time, we've advanced significant technology milestones that will propel GE Aerospace into the future. Our RISE program with CFM completed more than 250 tests on our way to developing a full-scale open-fan engine. We recently announced that in collaboration with Boeing, NASA, and the Oak Ridge National Laboratory, we will model the integration of an open-fan engine design on an aircraft wing.

And our defense team successfully demonstrated a hybrid electric propulsion system rated at 1 megawatt with the US Army. This represents a meaningful increase in power generation, enabling us to advance hybrid electric propulsion applications.

But perhaps more important than what we accomplished in 2024 is how we did it. And my thanks this morning go out to our entire team for their unwavering commitment to delivering for our customers.

GE Aerospace delivered a standout year financially with revenue up double digits, profit up $1.7 billion, and free cash flow up $1.3 billion. And we finished strong, surpassing our most recent guide. In the fourth quarter, robust demand continued. Orders were up 46%, and revenue grew 16%, with double-digit growth in services and equipment for both orders and revenue. Profit was up nearly 50%, and EPS more than doubled. Free cash flow was up over 20%, with conversion above 100%.

At Commercial Engines & Services, our fourth-quarter orders were up 50%, revenue was up 19%, and profit increased 44% while deliveries progressed. And for the full year, demand remained robust, with services orders up 30%, total revenue up double digits, and profit up 25% to $7.1 billion.

In Defense & Propulsion Technologies, fourth-quarter orders were up 22%, and defense units nearly doubled sequentially. For the full year, revenue was up 6% and profit increased 17% to $1.1 billion.

Looking ahead to 2025, we're maintaining this momentum as we aim to deliver another year of substantial revenue, EPS, and cash growth. We expect departures growth of mid-single digits and increased military spending. This supports solid low double-digit revenue growth, including growth in CES and DPT.

We expect profit in the range of $7.8 billion to $8.2 billion. This, combined with a lower share count, will translate to EPS in the range of $5.10 to $5.45, up 15% at the midpoint. For free cash flow, we expect to generate $6.3 billion to $6.8 billion, with conversion remaining robust above 100%. And given the strength of our balance sheet, we're increasing our share repurchases to $7 billion and planning to raise our dividend by 30%, subject, of course, to Board approval.

Overall, GE Aerospace is, I believe, an exceptional franchise with a tremendous financial profile. Stepping back, between 2023 and 2025, taking the midpoint of our guide, we expect to grow profit $2.5 billion and free cash flow nearly $2 billion over this two-year period.

Today, we're focused on keeping our customers' fleets flying and delivering on our new engine backlog. Our team is using FLIGHT DECK to tackle supply chain constraints head on. From the first half to the second half of 2024, we delivered meaningful improvement as material inputs increased 26% across our priority supplier sites. This, in turn, supported CES services revenue growth of 17% and engine unit growth of 18%, with defense and commercial both up double digits, including LEAP up 12%.

We're encouraged by our progress more recently in the fourth quarter, where CES services revenue increased 12% year over year, supported by expanded shop visit workscope and spare parts growth. But this was lighter than we expected due to lower internal shop visit volume, given material constraints. Total engine units improved up 3%, with defense up 20%. But commercial was roughly flat, with LEAP down 5%.

We'll need to drive further sustainable improvements to meet '25's demand, and this is exactly where FLIGHT DECK is so important. Earlier last year, our priority suppliers shipped only half of their committed targets to us. Today, they're shipping over 90% of the committed volume.

At a recent joint kaizen with a priority supplier, we focused on eliminating waste, achieving a 50% increase in output, 50%. And throughout 2024, we deployed over 550 of our supply chain and engineering resources into that same supply base, demonstrating that we're at our best when we're operating as one team.

Building off this momentum, we're bringing together our engineering and supply chain teams into one new organization, Technology & Operations, which will be led by Mohamed Ali. With shared accountability across the full value chain, this cross-functional team will enable faster problem solving to help improve deliveries. These actions, combined with our close alignment on demand schedules, will enable higher material inputs in 2025 and, importantly, beyond.

Finally, we've expanded LEAP aftermarket capacity by approximately 40% in 2024. This will support the growing fleet of 3,300 LEAP-powered aircraft with now 10,000 engines in backlog. Here's how. First, we're eliminating waste and reducing turnaround time using FLIGHT DECK. For example, our on-wing support team redesigned the LEAP engine flow, increasing output by 50% for the year. This contributed to LEAP internal shop visit growth of more than 20% in the fourth quarter alone.

Second, we're investing more than $1 billion in our internal MRO facilities over the next five years. We're growing our repair technologies, which will help lower the cost of ownership and provide faster turnaround times. Our recently opened Services Technology Acceleration Center here in Ohio will be a key enabler in deploying repairs across our global MRO network.

And third, we're strengthening our LEAP third-party network. Last year, five premier MROs completed around 10% of total LEAP shop visits. This is critical experience for them as their volume increases further in 2025. Overall, we're entering 2025 with a stronger foundation to service and deliver our engines faster with the highest possible levels of safety and quality.

Turning to slide 7, demand for our services and products remains robust, highlighted by orders up 46% in the fourth quarter. At CES and narrow-bodies, El Al Israeli Airlines confirmed its commitment for 20 737 MAXs with LEAP-1B engines underwing. We've also extended service contracts, including a 10-year engine maintenance agreement with flydubai for their CFM56-powered aircraft. And notably, the Airbus 321XLR, powered by our LEAP-1A engines, completed its inaugural commercial long-haul flight. Our engines are providing airlines with greater route flexibility and overall operational efficiency.

In wide-bodies, Royal Jordanian announced an order for 18 GEnx-1Bs, plus spares to power their expanded Boeing 787-9 fleet. And China Airlines also announced an agreement for 10 Boeing 777-9s with the GE9X under wing.

In DPT, we're building on our leading defense programs. We received orders under a contract with the US Army valued up to $1.1 billion for the continued production of T700 engines through 2029. The new T700s will power the Sikorsky H-60, the Bell H-1, and the Boeing AH-64 platforms.

In addition to expanding our extensive install base, we're enhancing our customer solutions. We signed an agreement to acquire Northstar Aerospace, a leading manufacturer of mission-critical gears and shafts. Northstar will be highly complementary to our Avio Aero business, providing a US-based presence in this market and adding new programs and capabilities to deliver complex flight-critical parts.

Stepping back, I couldn't be prouder about what we're building as GE Aerospace as we advance flight for today, tomorrow, and the future. Rahul, over to you.

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

Thank you, Larry. Good morning, everyone.

We closed out 2024 with another strong quarter. Orders were up 46%, with significant demand for both services and equipment. Revenue was up 16%, with growth in CES and DPT. Profit was $2 billion, up 49%, driven by services volume, favorable mix, and price. Margins were up 450 basis points to 20.1%. EPS of $1.32 more than doubled from profit growth and a reduced tax rate.

Free cash flow was $1.5 billion, up 21% from higher earnings. Working capital was a source, primarily from long-term service contract billings. While accounts receivables increased, day sales outstanding were down five days year over year. Given the ongoing material availability challenges, inventory increased, although at a lower rate than prior quarters.

For the year, orders were up 32%, including services orders up 30%. Revenue was up 10%, with growth in both segments. Profit increased 30% to $7.3 billion, with margins expanding 330 basis points to 20.7%, driven by commercial services. EPS increased 56% to $4.60 from significant profit growth, a lower tax rate, and the absence of preferred dividend. Free cash flow was up almost 30% to $6.1 billion, with conversion over 120%. Taken together, we delivered significant growth across all key metrics, both in the quarter and the year.

Looking closer at our businesses, starting with CES. In the quarter, orders were up 50%, as services demand remained robust while equipment accelerated. Our recent wins build on our backlog of $154 billion, with about 90% of that backlog in services.

Revenue was up 19%, with services up 12%, driven by shop visit revenue, higher spare parts, and price. Internal shop visit revenue, representing around 60% of services revenue, grew double digits. Increased work scopes, higher pricing, and engine mix more than offset shop visit volume that was down 3% due to material constraints. Spare parts revenue, representing roughly the other 40%, was up from higher volume and price. Equipment grew 38%.

While we made progress, supply chain constraints impacted total deliveries, down 2%, including LEAP, down 5%. For the year, LEAP deliveries were down 10%, in line with our latest expectations. Lower volume was more than offset by customer mix and price. In addition, given our growing fleets with high utilization, we caught up on spare engine deliveries to support airline fleet stability. Although the spare engine ratio was elevated in the fourth quarter, overall LEAP life of program ratio through 2024 remains in low double digits.

Profit was $2.2 billion, up 44%, as spare parts volume, increased shop visit workscope, mix, and price, more than offset inflation and investments. Margins expanded 490 basis points to 28.2%. Overall, CES delivered strong full-year results, with orders up 38%, revenue up 13%, and profit growing 25% to $7.1 billion. Margins expanded 250 basis points to 26.2%.

Moving to DPT, orders were up 22%, primarily driven by Defense and Systems. Demand remains strong here as well, with defense book-to-bill of 1.2x for the quarter and the full year. Our backlog for the segment is now at $18 billion, up more than $1.5 billion year over year.

Revenue grew 4%. Defense & Systems revenue was up 6%, driven by higher engine deliveries and price, partially offset by lower services. Defense units were up 20% year over year, with more than 90% quarter over quarter. Propulsion & Additive Technologies, or PAT, grew 2%, as lower commercial volume at Avio was more than offset by growth in other PAT businesses.

Profit was up 2%, driven by improved pricing and productivity, partially offset by investments in next-gen engines and inflation. Margins were down 20 basis points. Overall, a strong finish, as full-year orders were up 10%, revenue grew 6%, and profit was up 17% to $1.1 billion, with margin expansion of 110 basis points.

A moment on Corporate. We made substantial progress to ensure our operations reflect the needs of GE Aerospace as a standalone company. Corporate cost, including eliminations, was about $860 million for the year. Eliminations increased by $100 million to approximately $470 million from higher internal volume in PAT. Excluding eliminations, cost was down over a third to roughly $400 million, driven by lower functional expenses and higher interest income.

We also fully exited our remaining stake in GE Healthcare this quarter. And for the year, we returned more than 100% of our free cash flow to our shareholders, including $5 billion of share buyback and a dividend of around 30% of net income. Based on the strength of our performance and balance sheet, GE Aerospace is well positioned to compound shareholder returns for the long term.

Switching to our 2025 guide. Starting with CES, we expect mid-teens revenue growth for the segment. We are now expecting services to be up low-double digits to mid-teens, up from our prior view of low-double digits. At the midpoint, we expect internal shop visit revenue to be up from higher workscope, improved pricing, and high single-digit shop visit volume growth, which is pushed to the right from 2024.

We continue to expect low double-digit spare parts revenue growth from mid-single-digit air traffic growth and pricing. We expect equipment up high teens from growth in engine volume, including LEAP deliveries up 15% to 20% and pricing, more than offsetting negative engine mix.

We expect $7.6 billion to $7.9 billion of profit at CES, reflecting the benefit of services growth. This will be partially offset by the impact from increased R&D investments and higher GE9X deliveries in the second half of the year. We also expect a lower spare engine ratio.

In DPT, we expect mid- to high-single digits revenue growth with increased defense units and profit in the range of $1.1 billion to $1.3 billion. Higher defense deliveries are partially offset by self-funded investments in the first half.

Corporate costs are expected to be less than $1 billion. Eliminations are expected to grow as internal PAT volume grows. In total, we expect another year of low double-digit revenue growth for the company, with profit in the range of $7.8 billion to $8.2 billion, up about $750 million or 10% at the midpoint over 2024.

Turning to slide 12, we expect EPS to be in the range of $5.10 to $5.45, up roughly 15% at the midpoint. About 80% of the improvement will be from higher profit. The balance will come through a reduction in the tax rate, which is expected to improve to below 20%, and the benefit from share repurchases, including the $5 billion executed in 2024 and an additional $7 billion expected in 2025.

We expect to generate $6.3 billion to $6.8 billion of free cash flow, with year-over-year growth primarily from higher earnings. Contributions from working capital and AD&A combined year over year will be more than offset by higher CapEx and cash tax payments. Overall, we expect another year of conversion that is solidly above 100%. Taken together, GE Aerospace is poised for another year of growth ahead.

With that, Larry, I'll turn it back to you.

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

Perfect. Thank you. 2024 clearly was a strong first year for us as GE Aerospace. We grew revenue, earnings, and cash significantly, along with returning over $6 billion to shareholders.

That performance was underpinned by our competitive advantages. Our platforms are preferred by customers across the narrow-body, wide-body, and defense sectors. Our industry-leading services and technologies provide the highest levels of operational reliability, including greater efficiency, time on wing, and faster turnaround times.

At the core of everything we do is safety, quality delivery -- in that order. And we're focused on unrivaled customer service and flight support across the industry's most extensive install base with 70,000 engines. Our breakthrough innovations in both commercial and defense paved the way for more sustainable flight. And FLIGHT DECK, which connects our strategy to our results, enables us to deliver and create exceptional value for our customers and our shareholders. We believe our path forward is clear. We're well positioned to deliver another year of substantial growth and deploy over 100% of our free cash flow to shareholders.

Before we wrap our prepared remarks, I'd like to take a moment to express our support for all of those impacted by the fires in Southern California. Seeing our CF6, CFM56, and T700 engines powering many of the planes battling the fires, we feel a deep connection to our commitment to safety and hope that those fires can be contained soon.

Blaire, shall we go to Q&A?

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

Before we open the line, I'd ask everyone in the queue to consider your fellow analysts and ask one question so we can get to as many people as possible. Liz, can you please open the line?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Scott Deuschle, Deutsche Bank.

Scott Deuschle - *Deutsche Bank - Analyst*

Hey. Good morning. Rahul, can you refresh us on what the 2025 guide is assuming with respect to LEAP OE profitability? And then, when LEAP OE achieves breakeven, do you foresee the profit trajectory flatlining from there? Or is it reasonable to think that LEAP OE could be a profit center in its own right as time goes on and you benefit from some of these recent pricing gains and operational efficiency initiatives? Thank you.

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

Yeah. Absolutely, Scott. So let me start and Larry can add. Obviously, it's been a really good year for LEAP overall. I can start with answering your question, and Larry can comment on the operational improvements that we've driven here in LEAP.

So first, Scott, it was a milestone year for LEAP. LEAP services became profitable in 2024, and the program becomes breakeven in 2025, with OE following a year later in 2026. So that was our prior expectation that continues to be our expectation today. And as we look at LEAP, how it performed during the year, the profitability for the program tended to be better than our initial expectations, from higher external spare parts volume, better pricing, lower warranty expenses as some of those fixtures are going in, and more shop visits than we had initially expected. So that's our expectation.

And the key milestone for 2025 is that our profitability and margins for the program are getting better from increasing shop visits and higher external spare parts volume. And the OE performance improves despite more engines that we're going to ship. And just to comment on the external services volume, in 2024, shop visits -- external shop visits were just north of 10%, and we expect that to increase to 15% in 2025. And on a sold basis, the shop visits that we have sold, about 25% of the shop visits are non-GE/Safran shop visits, and that will help future profitability.

So overall, the program is on the right trajectory. And as the program kind of breaks even this year, OE becomes profitable next year, I think the services growth trajectory that the program has with the installed base is just going to power the program. So we expected LEAP to be kind of in

CFM56 levels by 2028. Maybe CFM is performing a little bit better. But that's the trajectory that the program is on that, sometime in -- late towards the end part of this decade, LEAP and CFM are delivering the same amount of profit for the company.

Larry, anything you want to add here?

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

I think you've covered the landscape there. Clearly, much of what we've talked about, Scott, just already this morning with respect to managing the supply base sets us up, particularly as we think about the ramps with LEAP. We would expect LEAP new units to be up 15% to 20% this year, more to come after that.

So that installed base growth, that aftermarket opportunity that Rahul was really talking about, is really a function of what we're doing currently with the installed base -- the supply base. That, of course, coupled with the progress that we made with the HPT at the end of the year on the LEAP-1A sets us up, I think, even more strongly in the marketplace. And we know the engine's performing well in the market. I think we increased our share of cycles 300 basis points in 2024. So we have a lot of good things in front of us. It's still, in many respects, early days for LEAP.

Operator

Myles Walton, Wolfe Research.

Myles Walton - *Wolfe Research - Analyst*

Thanks. Good morning. Congrats, Blaire. Well deserved.

At the start of '24, you were looking for about $1 billion of operating profit growth in '25 versus 2024. The new guidance, Rahul, as you mentioned, is $750 million of growth. I'm not oblivious to the fact that you blew away the 2024 base number. But curious, just as you look at that sequential climb to '25, what in the base profit of '24 didn't translate into '25? Thanks.

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

So Myles, if you step back and you look at the numbers that you alluded to, we were sitting in March of 2024 expecting to get to about $7.2 billion to $7.3 billion of profit by the end of 2025. And that was up quite a bit -- $1.5 billion to $1.6 billion from where we ended 2023. Now, as we sit here today, as Larry said in his prepared remarks, we're going to add about $2.5 billion of profit in the two-year period. So that's about a third better than what we thought just nine months ago. So the business is performing extremely well.

Now, as you think about the 2025 profit, call it $800 million year over year at midpoint of $750 million and $1 billion dollars at the high end, so first, we spoke about the corporate eliminations up about $100 million from higher PAT volume. So that's one thing, but put that aside. We expect CES profit to be up about $700 million at the midpoint.

And the biggest driver of profit growth within CES is the drop through that we're getting from the services revenue that we expect to be up about $3 billion up year over year at the midpoint of the guide. And we expect services margins to be flat, despite with LEAP getting to be a greater share of that services revenue as other things -- productivity, pricing -- all that is offsetting the LEAP mix impact.

And to offset the services within CES will be the impact from OE, about split 50-50 between the R&D step-up and the increase in GE9X shipments. We expect GE9X to be about a couple of hundred million dollars headwind in 2025 as we ramp the number of engines that we're shipping. And the spare engine ratio is expected to come down gradually as well here in '25. So that's the CES landscape.

And in DPT, given the growth in backlog, $1.5 billion, so call it close to about 10% backlog growth in 2024, we expect mid to high single-digit revenue growth. That's going to translate into profit and with margins expanding about 70 basis points at the midpoint of the guide. So overall, should be a good year. And to get to the high end of $1 billion that you referenced, I think we just need services to be a little bit better and perform at the high end of the guidance.

Operator

Ron Epstein, Bank of America.

Ron Epstein - *BofA Global Research (US) - Analyst*

Good morning. Question for you on the GE9X. When we think about that, I mean, 777X is back in flight test. Are there other opportunities for that engine beyond the 777X?

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

Ron, I would say that, at this point in time, we're fully focused on helping our friends in Seattle get this plane launched. So we're obviously proud to be under wing. We think it's going to be a great wide-body program over time. Delighted to see, as you mentioned, flight testing resume. We've started to ship engines to Boeing. So we've got work to do clearly, but the customer feedback relative to that aircraft and that engine continues to be quite strong. We've got nearly, what, 1,000 engines now in backlog.

And I'd like to think that with the delays, we've made good use of that time with respect to just additional testing, probably going to end up being the most tested engine in our history. We're approaching 2,500 cycles. In fact, we've got a second dust test engine, critical and harsh and hot environments underway. And we're already on our second iteration of HPT blades, let alone the CMC nozzle designs. So we're focused on that at the moment, but excited about that backlog and, ultimately, EIS.

Operator

Sheila Kahyaoglu, Jefferies.

Sheila Kahyaoglu - *Jefferies - Analyst*

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

I wanted to focus back on CES margins in Q4, just given the performance was so stellar at 28%. And even on slower expected services growth, given the internal shop visit volume hasn't quite turned the corner. So when we think about the 2025 outlook, and Rahul, I know you talked about this a little bit, services, you raised the guidance here from just one month ago to low to mid-teens. Can you talk about the moving pieces as you think about just the mix of spares, parts versus internal, and how the different engines are contributing to that? And maybe if you could just talk about the cadence throughout the year as well.

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

All right. So Sheila, let me start, and obviously, if I don't hit anything, come back and make sure we answer the question.

CES had a good quarter, better than what we had expected. Favorable services mix, Sheila, as you mentioned, the shop visit volume wasn't exactly where we needed to be, but spare parts did better. And again, as we're trying to manage the supply chain challenges that we're encountering, those parts are fungible and we kind of move them around every quarter to make sure that we are supporting our airline customers. So there's always a little bit of tension between external spare parts volume and internal shop visits. So the mix skewed towards the spare parts in the quarter.

And then engine mix was favorable as well. As we said in our prepared remarks, we caught up on the spare engines that we had not delivered in the first three quarters. So we caught up here in the fourth quarter, but overall, as we expect, spare engine ratio for LEAP is in low double digits. So it'll gradually come down, but we're not expecting a steep drop-off here.

So as you think about '25, Sheila, within CES, we do expect spare parts to remain strong here, given where the external market is. We expect the departures to be up kind of mid-single digits, and then all the pricing changes that we implemented last year, that they'll be thinking about the summer, get spare parts to be kind of up low double digits. And the shop visit revenue, we're expecting shop visit revenue to be up mid-teens. And that's going to come from high single-digit shop visit volume growth.

And you combine that with the work scopes that are increasing, be it the wide-body programs like GE90 going for the second shop visit, and GEnx’s coming for the first shop visits versus a quick turn earlier, and then LEAP. So work scopes are increasing, and then modest price increases baked into that service portfolio. So that's kind of the landscape of the CES revenue growth. And then that is going to drive the profit in response to Myles' question earlier.

Now, we're going to come out of the gate strong here, Sheila, within CES especially. And the primary driver for that is the 9X shipments are more towards the back end of the year. But we are entering the year for spare parts with about 90% of that revenue in our backlog. So we'll have a strong quarter here to start with in our spare part sales. We expect shop visits to grow as well. And then we had the CMR of over $200 million in 1Q of last year; we're not expecting that to repeat. So we'll start the year strongly on profit. And revenue for the quarter for CES should be kind of in line with what we're expecting for full year.

Hopefully that answers the question, Sheila.

Operator

Doug Harned, Bernstein.

Doug Harned - *Bernstein Institutional Services LLC - Analyst*

Good morning. Thank you. I want to just follow up a little more on the commercial services growth. Because when you talk about low double-digit to mid-teens next year, that's a little better than you were talking about before or this year. But can you talk about where that's coming from? Because wide-body versus narrow-body, in other words, could you go higher if you can resolve these supply chain issues?

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

Doug, as you would imagine, it's a broad-based demand strengthening that we see. Could we go higher? We've got work to do with the supply chain to execute on what Rahul just walked everybody through. But there is more pent-up demand there.

We've got the backlog. An unhelpful level of that is, in many respects, delinquent. So if we could continue to deliver the sequential improvements in inputs, combined with the progress I know we're making in our own shops, I wouldn't say no. But we've got work to do to deliver what we just outlined. But again, it won't be a demand challenge for us in 2025, we believe. We don't want to take it all for granted. But given the environment, given the backlog, it really is about operational execution. That's where we're focused.

Operator

Robert Stallard, Vertical Research.

Robert Stallard - *Vertical Research Partners - Analyst*

Thanks so much. Good morning. Just a question on the LEAP. You're expecting 15% to 20% growth this year, and Rahul said that you expect the spares ratio in that to come down. So looking at the remnant of those engines, how are you expecting the split to go between Airbus and Boeing in 2025?

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

Well, we don't get into that level of detail publicly. But I think we are, as you would imagine, in frequent contact with all of our customers, particularly those two vis-a-vis the intentions they have for 2025. I think we are well aligned to support both of them as they step up production this year.

Operator

Seth Seifman, JPMorgan.

Seth Seifman - *JPMorgan - Analyst*

Thanks very much, and good morning. I wanted to ask about the spares growth, you kind of talked about departures and price. One of the other things I'm kind of curious about is provisioning of third-party shops to do more LEAP maintenance over time, the degree to which that's happened, the degree to which that's still in front of us and affects kind of the spares growth trajectory, and maybe also the CapEx that you're doing and how you think, over time, that plays into the amount of LEAP work that will be done internally versus externally.

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

So Seth, let me start and Larry can jump in here. Obviously, as we're coming out of the gate here, most of the shop visits have been internal. As we said, about 90%, give or take, were shop visits that we performed within Safran and GE.

The external network is beginning to step up. We have five external partners. They're beginning to get volume. We spoke about the Akasa win with one of the third-party MRO partners that we have last quarter. So those visits are stepping up, and they've been stepping up sequentially as the year has gone on.

So as we think about 2025, we expect about, call it, 15%-ish of our shop visits to be external. And then, as I said earlier, about 25% of the shop visits that we have sold are going to be performed by our third-party MRO partners. And then, that will gradually grow up as we get into 2030 and beyond. So that's the trajectory we are on. And within that, obviously, spare parts will grow. Spare parts sales will grow as more shop visits are performed externally. So the margins on the program will get better because of that dynamic.

But overall, even on the services side, on our internal service contract, just given all the durability improvements that Larry just mentioned, our margins on our internal work that we are performing are very stable. I mean, we've had a couple of good years of service profitability results here on our own service contract. So we feel good about that as well.

Operator

David Strauss, Barclays.

David Strauss - *Barclays Capital Inc. - Analyst*

Thanks. Good morning. I just wanted to touch on the free cash flow forecast for 2025, Rahul. Maybe if you could go into -- it looks like you're assuming neutral-ish overall working capital, maybe a slight tailwind. How are you thinking that kind of breaks out between inventory, LTSA cash, AD&A, just those moving pieces within working capital?

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

Yeah. So David, most of the cash growth in '25 is going to be driven by our earnings. Working capital and AD&A combined should be a positive contributor. And within working capital, the inventory buildup should be less than what we had in 2024. I mean, in inventory, we added about $1.5 billion of inventory in 2024. We're obviously not expecting to add the same level. Now, again, our primary objective is to increase our deliveries, and we will do what it takes. But with the improvement in deliveries, we do expect that some of the inventory that we've built up will start getting liquidated.

The flip side of that is the contract assets, which was a very favorable contributor in '24, will not be as favorable in '25, just given the increase in shop visits. So still a positive, but not as much of a positive. So that's kind of within the working capital.

Now, AD&A, overall, we ended at about $300 million of outflow in '24, which was consistent with what we thought at the beginning of the year, a little bit more skewed towards the fourth quarter, but expect overall AD&A outflow to be at the same level, maybe marginally higher. So that's kind of the expectation on AD&A. And then, the positive contributions from working capital and AD&A will be offset by the expected higher cash tax payments next year and a step-up in CapEx. So conversion, still solidly above 100%, maybe a little bit lower than what we had in 2024.

Operator

Jason Gursky, Citi.

Jason Gursky - *Citi - Analyst*

Hey. Good morning, everybody. And Blaire, congratulations on the elevated role, well deserved.

Rahul and Larry, I was wondering if you could just spend a few minutes on labor productivity across the company and where you think you are relative to pre-pandemic levels. And what you think it's going to take for the company to get back to the productivity that we're seeing prior to the pandemic? And just how much of that is actually in your control and how much of it is dependent on external suppliers getting you what you need on time? Thanks.

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

Jason, I think that as I look back on 2024, everything that we saw come through the financials, everything we saw visiting a number of our operations, just ample evidence that the FLIGHT DECK principles and tools really are helping us go in, put the operators at the center of all put the operators at the center of all we do and just drain the waste out of their daily work. That, to me, is the heart of labor productivity.

Unfortunately, that work that we see with our own eyes hasn't fully translated into either better on-time delivery performance or labor productivity for the very reason that you touched on. And I don't want this to sound in any way defensive, the progress that we're making with those material inputs that we referenced in the prepared remarks, the sequential first half, second half, up 26%, coupled with the higher predictability, the higher reliability of those inputs, north of 90% now for the critical suppliers, will enable us to have more predictable, more linear flow through our factories, through our repair shops, such that I think we'll actually do better from a labor productivity.

It's hard to quantify how much, if you will, labor lack of productivity comes as a result of our delivery challenges on the inbound side. But as we work those, I think we sit here fully expecting to be able to deliver better labor productivity in '25 and certainly from there.

Operator

Gavin Parsons, UBS.

Gavin Parsons - *UBS Securities LLC - Analyst*

Hey. Good morning, guys. I'd love to just kind of go further into supply chain a little bit. It sounds like it's getting better. You've got the LEAP-1A blade certified, but internal shop visits were still down in the fourth quarter. Just maybe if you could go into where the bottlenecks or the pain points still are and if that's a linear improvement through '25 or if that's a step function at some point on an unlock. Thank you.

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

Well, I don't think we have much by way of new news in that regard. The challenge remains as it has with 15 or so critical suppliers that we're working intensely with. I think we mentioned yet again today that we've got well over 500 of our own people embedded in the supply base working to identify and eliminate constraints, thus unlocking the output that we need.

I think as we look at '24, the progress that we made in hindsight is significant, but it came in fits and starts. It was a game of inches, if you will. I think that will continue to be the case in 2025. There's no step function improvement necessarily sitting out there on the HPT blade. Certainly, the LEAP-1A durability kit will help. But more broadly speaking, it really is working through the entirety of the supply base to make sure they're clear on our demand signals that those are being properly deployed and that we're working through whatever capacity constraints, bottlenecks, and the like that they may have in their own operations.

And that, to me, is really what's so critical. And that'll be fundamental to how we support Boeing this year as they ramp, particularly on the 737 MAX. The same goes with Airbus. We know we're working very hard, well aligned with Airbus as we both march toward their rate 75. So a lot to do. It won't be linear, but I think we have tremendous confidence that we're coming into 2025 far better prepared for the ramp than we were coming into 2024.

And the final thing I'll say is that we often talk about the ramp wholly focused on new make. The work we do with our supply base helps us support the air framers, but it's often the same parts and the same suppliers that feed into the aftermarket. I would just caution anyone about over-indexing on that, say that 15% to 20% increase in LEAP new make in 2025, the demands on the supply base are going to be in excess of that, again, because we also need to support the aftermarket with those same partners.

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

And Gavin, just to add to what Larry just said, just as we think about 2025 here and as we're coming out of the gate, you saw the sequential improvement in our engine output in 4Q. We expect that continuously sequential improvement as we go through the year. But what that translates into a little bit more growth on a year-over-year basis as we get into the second and third quarters, because that's where we had some challenging quarters last year, because we started out well coming out of the gate in 1Q.

So how that translates for our overall business, and just to add to what I said to Sheila's question earlier about how CES is going to perform, I think the same applies to DPT as well. DPT is going to have a little softer start here in 1Q, given the first quarter was pretty strong for DPT, but a little slower start in DPT, plus some of the internal investments that we are making in the business to support the new programs. So if you step back and look at the company overall, we expect overall full-year revenue for the first quarter to line up with what we are expecting for full year for the company. Our profit will be flat, maybe sequentially down a little bit versus what we did in the fourth quarter. As we go from 4Q to 1Q, profit could be flat to be slightly down, but strong growth on a year-over-year basis and margins should expand in the quarter as well.

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

Liz, we have time for one last question.

Operator

Robert Spingarn, Melius Research.

Robert Spingarn - *Melius Research - Analyst*

Hey. Good morning. Larry, maybe I can finish off with a high-level strategic question. Some would argue that RTX's ability to bundle Pratt's propulsion technology with Collins' offering in avionics and structures could provide them with a competitive advantage when bidding for work packages on future aircraft programs. Your balance sheet is in great shape. This is evidenced by your updated cash deployment plans this morning. And since you are going to generate a lot of cash over the next five years, is there any desire to expand the business beyond propulsion through organic or more particularly inorganic means? Thank you.

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

I think we will stand by our capital allocation framework that we shared almost a year ago now with respect to how we think we will deploy not only our cash flows and our cash reserves in '25, but going forward. We certainly have ample resources.

But again, just to reiterate, we are going to have a strong bias toward shareholder returns. It doesn't mean that we will exclude M&A, but as you saw with the Northstar announcement, much of what we will do will be small tuck-ins and adjacencies. I don't think I have ever, in this role at this company or elsewhere, publicly commented on specific situations, and I think I will hold to that again here this morning. But we appreciate and understand the question.

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

Larry, any final comments?

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

Blaire, I would just wrap up to say the team all around the world delivered standout results in 2024. And clearly, the finish there in the fourth quarter was no exception. I hope everybody on the call heard how excited we are about the year ahead as we work to meet what we believe to be historic industry demand and deliver for our customers. We certainly 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.
