GE Aerospace

Edited Transcript

Q1 2025 GE Aerospace Earnings Call

CORPORATE PARTICIPANTS

Blaire Shoor *GE Aerospace - Head of Investor Relations*

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

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

CONFERENCE CALL PARTICIPANTS

Doug Harned *Bernstein Institutional Services LLC - Analyst*

Sheila Kahyaoglu *Jefferies - Analyst*

David Strauss *Barclays - Analyst*

Gautam Khanna *TD Cowen (Research) - Analyst*

Ken Herbert *RBC Capital Markets Wealth Management - Analyst*

Myles Walton *Wolfe Research - Analyst*

Noah Poponak *Goldman Sachs - Analyst*

Scott Deuschle *Deutsche Bank Securities Inc. - Analyst*

Seth Seifman *J.P. Morgan Securities LLC - Analyst*

Jason Gursky *Citi - Analyst*

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

Scott Mikus *Melius Research LLC - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the GE Aerospace first-quarter 2025 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, Blaire Shoor, Head of Investor Relations Team. Please proceed.

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

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

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

Larry, over to you.

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

Blaire, thanks, and good morning, everyone.

©2025 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

While a lot has happened since January, we at GE Aerospace remain focused on our purpose. Our team works daily to invent the future of flight, lift people up, and bring them home safely. Those last four words ring true to us, given right now there are nearly 1 million people in the sky with our technology under wing. This is an incredible responsibility and one that we take very seriously.

With safety at our core, we're advancing our vision to be the company that defines flight for today, tomorrow, and the future. Today, we're focused on service and readiness, keeping our customers' fleets flying. For tomorrow, we're delivering the ramp and executing our $170 billion-plus backlog. And for the future, we're advancing the technology that will define the future of flight across both commercial and defense with approximately $3 billion in annual R&D spending.

FLIGHT DECK, our proprietary lean operating model, is how we translate that strategy into results. Launched a year ago, we're activating FLIGHT DECK to deliver for our customers and create long-term value for our shareholders.

Turning to the first quarter, GE Aerospace delivered a strong start to the year. Orders were up 12% and revenue grew 11%, with double-digit growth in both services and equipment. Profit was $2.1 billion, up 38%, with contributions from both segments, leading to margins of 23.8%. Overall, we delivered $1.49 of EPS, up 60% year over year, and free cash flow was $1.4 billion.

In Commercial Engines & Services, or CES, we're servicing and growing the industry's most extensive commercial install base. Services strength continued, with orders up 31% and revenue up 17%, driving total operating profit growth of 35% year over year.

In Defense & Propulsion Technologies, or DPT, we're improving the delivery of our leading defense programs while developing mission-critical technology. The first quarter was solid, with defense units growing 5% and profit increasing 16%. My thanks go out to all of our 53,000 employees around the world for delivering, once again, for our customers.

Moving to slide 5. GE Aerospace supports efforts to revitalize domestic manufacturing, and it's why we're investing $1 billion in US manufacturing this year and hiring over 5,000 US workers. At the same time, we support promoting free and fair trade. It ensures the continued strength of the US aerospace industry.

Our industry has a nearly $75 billion trade surplus, the highest trade balance of any sector, and exports more than $135 billion of products each year. This is possible because the global aviation sector has long operated without tariffs on civil aircraft, engines, and avionics. As the US administration engages in discussions with its trade partners, we'll continue to advocate for an approach that re-establishes zero-for-zero tariffs in the aviation sector and ensures a level playing field for the US aerospace industry.

In the meantime, heightened tariffs will result in additional costs for us and our supply chain. We're leveraging available programs the administration is providing businesses, such as duty drawbacks, along with other strategies to optimize our operations, like expanding foreign trade zones. With those actions, we expect to reduce the tariff costs to roughly $500 million. We're taking additional actions to offset this remaining impact. This includes controlling costs while maintaining investments in key priorities and pricing actions.

Departures remain favorable in the quarter, up 4% in line with our expectations. Given strong orders growth over the last several quarters, our commercial services backlog has grown to over $140 billion. We've had a lag in converting those orders to revenue given the broader supply chain dynamics.

Our spare parts delinquency continues to increase, unfortunately, up over two times year over year. And our internal shop visit slots are full, with a healthy pipeline of engines which have been removed but not yet inducted into our shops.

So far, second-quarter departures are shaping up more or less in line with the first quarter. We're taking a more cautious approach and embedding a slower second half in our estimate, resulting in departures up low-single digits for the full year. This includes a reduction in North American departures, which make up about 25% of the total.

©2025 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

So to step back, while the broader environment is certainly uncertain, we are watching demand closely, and we're operating from a position of strength. The actions we're taking, combined with our robust backlog, position us well to maintain our full-year guidance.

Shifting to slide 6. We're focused on meeting the aftermarket and OE ramp to deliver for our customers. Demand continues to outpace supply, and we're utilizing FLIGHT DECK to tackle supply chain constraints head on.

In the first quarter, material input at our priority supplier sites was up 8% sequentially, which supported CES services revenue up 17% year over year. While defense units were a bright spot, up 5%, total engine units were down 6%, with LEAP down 13%. This was lighter than we expected from the slower start to material inputs in January and the lead times to complete new engines. We drove significant improvement in material input in February and March, giving us confidence that we will accelerate output in the second quarter.

In partnership with our suppliers, we're leveraging FLIGHT DECK to deliver. Our priority suppliers continue to improve shipments against their committed targets, which increase both year over year and sequentially. In the first quarter, they delivered shipping more than 95% of their committed volumes.

Our new Technology & Operations organization has hit the ground running. In March, we hosted a supplier symposium to share our near and longer-term growth outlook across both services and OE. This helps our suppliers with required transparency and stability they need to make critical investments to support the ramp in a forum for discussing key challenges in doing so.

Importantly, we know these joint efforts with our suppliers work. Last quarter, we shared that a joint kaizen with one of those priority suppliers achieved a 50% increase in output in just one week. Now, at the end of the first quarter, the same team has delivered a 3x increase quarter over quarter.

Additionally, LEAP remains an important growth area, with the fleet expected to more than double by the end of the decade. We're continuing to expand capacity to support aftermarket demand. LEAP external shop visits grew over 60% in the first quarter, demonstrating the rapid growth in the third-party network.

Also, all engine shipments to Airbus now incorporate the durability kit, including the upgraded HPT blade, which was approved back in December, and enables the LEAP-1A to achieve CFM56 levels of time on wing. We're also shipping those same blades to MRO shops to support upgrades of the existing fleet.

The upgraded HPT blades incorporate a simpler design, requiring less capacity, improving process yields, and ultimately supporting higher output, critical additional benefits that will support achieving the 15% to 20% growth in LEAP deliveries we expect in 2025. We're already seeing improvement in our overall output through April and remain confident we'll accelerate in 2025 and longer term.

Turning to slide 7. In the first quarter, we saw a continued demand for both our services and products. At CES, we secured multiple agreements for our customers' growing fleets. We secured engine commitments from ANA for both our narrowbody and widebody platforms. They selected LEAP and GEnx engines to power 13 A321neos, up to 22 737 MAXs, and 18 787-9 aircraft as part of their fleet upgrade.

Additionally, we received a commitment from Malaysia Aviation Group for 60 CFM LEAP engines, plus additional spares to power 30 Boeing 737 MAX aircraft. And in the widebody segment, Korean Air announced an agreement for up to 30 Boeing 787-10s and 20 777-9s with our GEnx and GE9X engines under wing.

In DPT, defense budgets are increasing globally, and customers are selecting our leading programs. We received a contract from the US Air Force valued up to $5 billion. This supports foreign military sales for the F110 engines, which power the F-15 and the F-16 aircraft operated by allies around the world.

At the same time, we're strengthening our leadership position with continued investments. Starting with the RISE program, we recently completed a second endurance test campaign on the high-pressure turbine blades, earlier in the development process than ever before. This demonstrated

©2025 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

improved durability and fuel efficiency, key customer priorities for the future of flight. We also completed the initial ground runs for the T-901 engine on a US Army Black Hawk helicopter, a major milestone toward delivering a more powerful mission-ready aircraft and one that puts us on a path to a flight test.

Finally, we successfully completed the detailed design review for the XA102 adaptive cycle engine, working toward production of a full-scale model. This is a critical milestone supporting the US Air Force's next-generation adaptive propulsion program.

We were also pleased to see President Trump's award of the F-47 and the administration's commitment to advance this important program. Our progress on advanced engines position us well with the administration's efforts to maintain military air superiority. So overall, we're focused on executing our sizable backlog while investing in the technology building blocks that will define the future of flight.

Rahul, over to you.

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

Thank you, Larry. Good morning, everyone.

We started out 2025 with a strong first quarter marked by significant top-line and EPS growth. Orders were up 12% and revenue was up 11%, both led by commercial services. Profit was $2.1 billion, up $600 million, or 38%, driven by services volume, favorable mix, and price. Margins expanded 460 basis points to 23.8%. EPS of $1.49 was up 60% from profit growth, a favorable tax rate, and a lower share count from buyback actions.

Free cash flow was $1.4 billion, down 14%, and in line with our expectations. Working capital was the source, primarily from contract assets. Inventory increased to prepare for higher output and to tackle ongoing material availability challenges. This was partially offset by payables.

Given our operational and financial strength, we continue to expect to deploy over $8 billion of cash to shareholders in 2025 through dividends and buybacks. We remain well positioned to drive significant shareholder returns while continuing to invest in growth, innovation, and focused M&A.

Looking closer at our businesses, starting with CES. In the quarter, orders were up 15%, with services up 31%, while equipment was down 13%, given a tough compare. Revenue was up 14%, led by services up 17%. Spare parts revenue was up more than 20% from higher volume and price. Internal shop visit revenue grew 11% from higher shop visit output, increased workscopes, and widebody mix.

Equipment grew 9%, with favorable customer mix and price offsetting unit deliveries that were down 9%. While still elevated, the spare engine ratio stepped down sequentially, in line with expectations, and the LEAP life of program spare engine ratio remains in low-double digits.

Profit was $1.9 billion, up 35% from services volume, mix, and price. This more than offset inflation, increased R&D, and a year-over-year change in estimated profitability on long-term service agreements of approximately $100 million, primarily from the estimated impacts of tariffs. CES margins expanded 420 basis points to 27.5%, overall, a very strong start for CES, largely driven by services.

Moving to DPT. Orders were flat year over year, with services up 14%, while equipment was down, given the significant growth in first quarter of last year. Defense demand remains robust, with a book-to-bill of 1.4x.

Revenue grew 1%. Defense & Systems revenue was flat. Defense unit growth of 5% and price were offset by lower services revenue. Propulsion & Additive Technologies grew 1%. Services volume and price offset lower internal shipments from a planned lower start in equipment sales.

Profit was up 16%, driven by customer mix, productivity, and price. This was partially offset by self-funding of next-generation investments and inflation. Margins improved 160 basis points to 12.7%. Stepping back, DPT delivered a better-than-expected first quarter.

©2025 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Shifting to Corporate. Cost, including eliminations, was about $70 million. This was down over 40%, or approximately $55 million, mostly driven by expenses down roughly $40 million.

Now, moving to our guidance on slide 11. First quarter exceeded expectations, given stronger spare parts sales and services mix, which should continue. We have a robust backlog, supporting our growth for several years. And we're taking actions to offset the impact from tariffs and to help us in navigating the uncertainty in the environment.

Operationally, we are performing better than we expected on the January earnings call. But given the macroeconomic backdrop, we are holding our guidance across the board. Therefore, we continue to expect low double-digit revenue growth, profit of $7.8 billion to $8.2 billion, EPS of $5.10 to $5.45, and free cash flow of $6.3 billion to $6.8 billion.

We are also maintaining our segment guidance. Unpacking the moving pieces, we have included the following in our guidance. Recognizing the dynamic background, we are preparing for tariffs that could persist through year-end, with 10% tariffs remaining in place, and then retaliatory tariffs resuming after the 90-day pause.

As Larry mentioned, we expect roughly $500 million of cost after our operational actions to minimize the tariff impact. From there, we expect to primarily mitigate this remaining $500 million through SG&A cost controls and price increases. We are maintaining our R&D spend for the year.

Regarding the macro environment, given the ongoing uncertainty in the second half, we are adjusting some of our full-year expectations. We now expect low-single-digit full-year departure growth, down from mid-single-digit in January.

Given the tariffs in place in China, we've reduced spare parts and spare engine sales for the year to that region. This demand is not foregone, as the customers in China still have needs for services and spare engines, but they may be delayed. We are maintaining our full-year spare parts guidance for low double-digit growth, given the stronger start to the year, and nearly 90% of spare parts in backlog for second quarter. We expect minimal impact on internal shop visit revenue, which represents roughly 60% of our total services revenue, given our backlog, pent-up demand, and limited risk to shop visits pushing out. Overall, we continue to expect low double-digit to mid-teens services growth. We have not factored in a slowdown in airframer delivery schedules, further tariff escalation, or a global recession into our guidance. We remain confident in our ability to deliver another year of strong results.

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

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

Rahul, thank you.

We're encouraged by our strong start, which, combined with the actions we're taking, puts us well on our way to achieving our full-year guide. CES is on track for another year of significant growth, and we expect continued solid performance at DPT.

GE Aerospace has sustained competitive advantages. We have a diversified fleet of preferred platforms across the narrowbody, widebody, and defense sectors. At the core of everything we do is safety, quality, delivery, and cost, always in that order.

Our services and technology offer industry-leading operational reliability, including greater efficiency, extended time on wing, and faster turnaround times. We serve the industry's largest fleet of 70,000 engines with unrivaled customer service and flight support. This keeps us close to our customers through decades, long life cycles, building meaningful relationships, and making us the partner of choice.

Our talented engineering teams continue to develop breakthrough innovation to support our existing fleet and advance next-generation technologies. And FLIGHT DECK supports us in delivering results and lasting value for our customers and shareholders. These differentiators, combined with our growing backlog, will not only help us manage the near term, but enable us to deliver long-term value.

©2025 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

With that, Blaire, let's go to questions.

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Doug Harned, Bernstein.

Doug Harned - *Bernstein Institutional Services LLC - Analyst*

Thank you. Good morning. Larry, you talked about tariffs at the outset, and tariffs in aviation really aren't good for anybody. And you said that you're advocating a return to that zero tariff approach. But I wonder if you can comment some on the interactions that you've had, or perhaps others in the industry have had with the administration, in order to advocate for that point of view for aviation. And perhaps you can say, are there any thoughts you have about how this might play out over time, scenarios that may be possible given the uncertainty right now?

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

Well, Doug, I think it's easier to speak to the first part of that than the second part. We have spoken to a number of people -- senior people within the administration, including the president. We have been, I think, full-throated in our support of the administration's efforts to support American competitiveness and revitalize American manufacturing. We're well aligned in that regard.

But it's easy to overlook the $75 billion trade surplus the sector enjoys, largely on the back of this tariff-free regime that we've had since 1979. So all we have suggested, as the administration works through a myriad of issues, is that they consider the position of strength that the country enjoys as a result of this tariff-free regime and to consider reestablishing the same.

There are a whole host of potential scenarios here, Doug, that we could take on operationally. I won't take your time to go through them. There is uncertainty. None of us, I think, know for sure how this plays out. But as Rahul walked through a moment ago, I think what we've basically assumed here is that what we're dealing with is what we'll see through the rest of the year.

We've knocked down a good bit of the gross effects through the actions like duty drawbacks and foreign trade zones, but we're still staring at the better part of $0.5 billion of headwind in 2025. And in turn, that's where the cost control actions and the price actions that we've touched on here give us additional offset opportunities. But as we work those operationally, rest assured, we will continue to advocate in the best ways possible on behalf of the industry.

Operator

Sheila Kahyaoglu, Jefferies.

©2025 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Sheila Kahyaoglu - *Jefferies - Analyst*

Good morning, Larry and Rahul. Thank you. Maybe just sticking on the tariff topic, if that's okay, very good start to both CES and DPT. Total profit beat of $250 million, even baking in $100 million of impact from tariffs in Q1, and you talked about a $500 million net impact. How do we think about the margin cadence in Q2 and the second half as we think about those tariffs coming in?

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

Right. No, Sheila. So let me start and Larry can jump in here.

We've had a good start here. First quarter came in better than what we expected. And as we think about the year, and we mentioned this in January, we did expect a strong start to the year. We were aiming for a more linear year than we had last year. And given the OE ramp was back end loaded, we have 9X shipments in the back half of the year, and then lower spare engine ratio and including step-up in corporate expenses, so we had expected that we will have a stronger first half. And we've seen that in the first quarter.

And as we think about the second quarter, to get to your question, we do expect that momentum to continue into the second quarter. And what we are thinking for second quarter right now, given where we are in April, is that the GE Aerospace revenue growth to be better than what we delivered in first quarter and the profit dollars for the second quarter to be flat to sequentially up from first quarter, and decently up on a year-over-year basis.

And this will be primarily driven by services, and we expect similar revenue growth in services as we did in the first quarter. As I said on the call, more than 90% of the spare parts are in the backlog, which is a similar position that we were in in January for first quarter. But this spare parts growth in the second quarter will be partially offset by higher OE growth.

Now, as we think about the second half of the year, a lot more uncertainty, given the volatility around the macro trends that we've spoken to. But we've embedded a certain amount of conservatism in our guide around departures that we spoke about and issues arising from the tariffs in China. So given that, we've reduced our expectations for spare engines and spare parts deliveries to China.

Now, some of them will get diverted to other customers, but there will probably still be an impact. And we've also factored in the potential slowdown in departures in North America. But overall, we are holding the low double-digit spare parts growth for the year just given the start that we've had.

So if you put all that together, we should still see year-over-year profit growth in the second half. Should still be a very, very good year for us. And overall, as we sit here today, Sheila, we feel better about the year, even with the tariffs, even with the macroeconomic uncertainty that we did back in January. And knowing that where we are in the world right now, we'll be back together in June at the Paris Air Show, and we'll give you an update there.

Operator

David Strauss, Barclays.

David Strauss - *Barclays - Analyst*

Thanks. Good morning, everyone. So just wanted to dig in a little bit on that second half of the year assumption on departures. It looks like you're assuming basically no departure growth in the second half of the year. Is that right? And what is specifically in a flat departure scenario are you assuming for spares?

And a follow-up there on shop visits. I know you talk about you've got a lot of backlog on shop visits. But how long would you think that departures can stay relatively flattish before you start to see an impact in terms of shop visits just from retirements picking up and so on? Thanks.

©2025 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

David, you touched on a number of the variables there. Again, the mid-single-digit outlook for departures that we saw, we talked about back in January, held up quite well in the first. And it looks like just looking at this morning's data, that continues to be the case.

We often, I think, maybe over index on the dynamics in the US market. We know there's some cross-border traffic softening, Canada to the US, even Europe to the US. But broadly, when you look around the world, departures are holding up pretty well. Rahul used the word conservatism earlier. I think we're just taking a conservative view with respect to the second half. US departures could soften. We may see some adjustments elsewhere. We'll leave the detailed planning to the airlines.

But again, I think we know that it will take some time for that to impact us, not that we will be immune for the calendar year. But when you look at past downturns, it has taken two, three, four quarters, sometimes longer, for that departure slowdown to really impact our activities. And I think that's why we've highlighted the strength of the spare parts order book that we have in hand. Again, 90% of the second quarter already in place. And with the engines that are off wing, either in our shops today waiting to come into shop or waiting to be delivered to us, that would take us well into the fall.

So we don't like the fact that we've got such delinquencies in place. We want to serve our customers better. But it does, I think, support the underlying strength of the backlog and the delinquency as we look at our opportunities to execute and deliver through the rest of this calendar year. But again, there's uncertainty here. We're taking what we think is a cautious view, and we'll be watching it very, very closely.

Operator

Gautam Khanna, TD Cowen.

Gautam Khanna - *TD Cowen (Research) - Analyst*

Yeah. Good morning, guys. I was wondering if you could elaborate on your pricing strategy and how it might differ from normal years. Are you going to wait until kind of mid-year to enact spare price increases? What's different as you approach pricing offsets to tariffs this year?

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

So Gautam, we are doing this -- there are two pieces to this. We will do our typical kind of catalog price increases that we do late in the summer. Again, our thinking around that has not changed. We are still aiming for that mid to high single-digit price increases on our spare parts later in summer, which is consistent with where we were in January. So that expectation has not changed.

Now, that typically translates into kind of mid-single-digit at the overall services level for us, after sharing with the revenue share partners and everything else. The pricing benefit on the remaining service contract is lower than what we see on the spare parts, as you know. But overall, I think that expectation has not changed.

I think what we alluded to on the tariffs was a temporary surcharge for recovering the cost that we are feeling right now. Now, we are trying to offset that with all the things that we spoke about, that Larry spoke about even a minute ago to Doug's question. So we are trying to manage through that.

And then we are going to take some SG&A cost control actions. And whatever is left, we will share that in some way, shape, or form to a tariff surcharge. And hopefully, it is not a permanent thing and we can take those away as soon as the tariffs end. So that is our thinking right now.

©2025 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Operator

Ken Herbert, RBC Capital Markets.

Ken Herbert - *RBC Capital Markets Wealth Management - Analyst*

Yeah. Hi. Good morning, everybody. Hey, Larry or Rahul, I just wanted to see, in the first quarter, really strong spare parts purchasing. Can you comment if you expected or saw any pre-buys there, specifically in China or elsewhere perhaps, maybe ahead of the tariffs or other factors? And as part of that over 20% growth, can you give any granularity on maybe widebody versus narrowbody dynamics, or specifically LEAP versus CFM56?

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

So Ken, no pre-buys. I mean, typically, we don't see that in January. I think we kind of knew that. I think as we go back to the first-quarter earnings call, we said 90% was in the backlog. And we are sitting in a similar situation here in the second quarter, as we said a couple of times here. So no pre-buys.

I think the departures were up 4%. They are hanging in there. We are up 4% in the first quarter. They are hanging in at that level even in the second quarter through April and through the forward schedules that we are seeing in May. So clearly, that trend is continuing. So no pre-buys.

Now, in terms of the widebody, narrowbody, and on LEAP versus CFM56, obviously, LEAP is growing faster. We expected more than 30% shop visit growth on LEAP. And within that 30% shop visit growth, the external channel, we expect the external channel this year to be about 15% of our total shop visit revenue versus kind of 10% last year. So within that, you can see the external channel beginning to pick up, and that is driving the LEAP spare parts revenue growth.

For CFM56, we continue to expect kind of mid-single-digit shop visit growth, which will drive the CFM56 revenue. So LEAP is clearly going faster here than CFM56 on a percentage basis. But narrowbody, widebody, I think that obviously, LEAP is driving a little bit higher percentage growth. But we are seeing good growth even on the widebody side, especially as GE90 and GEnx get into heavier workscopes.

Operator

Myles Walton, Wolfe Research.

Myles Walton - *Wolfe Research - Analyst*

Thanks. Good morning. Rahul, for you, the equipment gross margins in the quarter, it's another quarter of positive gross margins, I think 12%, even better than the 8% you had last quarter despite a lower spare engine ratio. I'm just curious, is there anything structural going on with respect to the razor blade model and making money maybe on new equipment? Or is there something else under the surface you could give some color to?

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

Yeah. So Myles, a couple of things there. One, the number that you have is obviously the total GE Aerospace level versus CES, just keep that at the back of your mind. And as you saw, defense, we did say higher revenue growth. I mean, the units were up 5% in defense. So that helps. The defense business does contribute to that margin profile because those units are profitable.

Now, within CES, our OE volume was a little bit lower. And as you saw, the spare engine ratio did come down sequentially, but was still elevated. And that will keep coming down as the year progresses, but in line with what we had projected at the beginning of the year. So nothing abnormal there.

©2025 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

And really no change, broadly speaking to the razor blade model. Now, widebodies are obviously -- those platforms are now profitable for the OE business. So that is helping here as well.

Operator

Noah Poponak, Goldman Sachs.

Noah Poponak - *Goldman Sachs - Analyst*

Hey. Good morning, everyone. A few questions on cash flow and its deployment. To what extent was the quarter ahead of the free cash plan? And if it was, how much of that is pure outperformance versus quarterly timing? And then I wanted to ask, on the duty drawback, how long does it take to recover? And what does that mean for cash flow? And then in terms of its deployment, how does the current environment change your thinking in terms of being more aggressive or more conservative on capital deployment?

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

Well, maybe we could take those in reverse order, Noah. I think, as Rahul said in our prepared remarks, we continue to think that in '25, we'll have more than $8 billion of total returns between the dividend and the buyback at $7 billion.

As you would appreciate, given the comments this morning and the conviction we have about the outlook, we'll be thoughtful, we'll be opportunistic. We do have, I think it's close to $3 billion of remaining authorization in the buyback once that $7 billion that we planned for this year has been utilized. So we've got some latitude, some flexibility in that regard.

With respect to the duty drawback, normal course, we would see that cycle somewhere four or five months. We'll see how things play out in this environment, but that would be a good planning assumption.

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

And Noah, on the first-quarter cash, we basically came in in-line. I think we expected kind of at the levels we were at, working cap was positive in the quarter. You saw the inventory build that we had. It was down a little bit year over year, just given the timing of cash tax payments and some of the employee liabilities that we had. But again, nothing unusual or unexpected. And as we sit here for the second quarter, we do expect to have a strong second quarter on cash. It should be sequentially up from first quarter, and we expect more than 100% conversion for the second quarter.

Operator

Scott Deuschle, Deutsche Bank.

Scott Deuschle - *Deutsche Bank Securities Inc. - Analyst*

Hey. Good morning. Rahul, in your last Investor Day deck, you had this chart that showed price increases on both LEAP OE and LTSA contracts, and I think it compared pricing from 2018 to pricing in 2022 and 2023 and the step-up was something to the tune of 100%, I think. I guess, can you characterize how much of that 100% increase in price you've seen at this point in the income statement versus how much is still just sitting in the backlog and remaining to be seen? Thank you.

©2025 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

No, Scott, you're right. So let me take that in two pieces. One, I think you're right. The shop visit prices are going up, and that's just basically the end of launch period pricing. Obviously, as we were in the 2019 to 2021 timeframe, it was a very different time period. We were in that initial stages of launch. As we've come out of that, the LEAP shop visit pricing has gone up since then.

But as we think about that price increase that we put in place, that takes a few years for it to show up in our P&L. As you mentioned, just given the timing of contract and obviously with the delay in aircraft deliveries, that cycle is a little bit elongated. So while we are implementing price increases for the shop visits and the portfolio accretion is at the higher price, that has not really showed up in our P&L just yet. So that will take another couple of years before it starts showing up. And those contracts that we have signed recently, they're going to affect.

Operator

Seth Seifman, JPMorgan.

Seth Seifman - *J.P. Morgan Securities LLC - Analyst*

Thanks very much. Good morning. I wanted to follow up a question on the drawbacks, I guess. How do you think about those working through the supply chain? Do suppliers take care of all of that themselves? Does any of it go through you? Do you anticipate, given that some of them might not be as well capitalized, some need to support them? Or perhaps on the flip side, given the amount of inventory that you have, that there is maybe an opportunity to draw a little bit less right now? And basically, how you're thinking about managing the supply chain in light of tariffs.

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

Well, Seth, I would say big picture, there's a tremendous amount of work going on with the new Tech & Ops organization to strengthen our overall working relationship with the supply base, large and small. I appreciate your comment about our current inventory levels.

I don't think we're looking to make an adjustment here, given some of the uncertainty, because we know with the backlog that we are challenged to deliver both OE and aftermarket for the rest of this decade. We're going to need that inventory, and we want to strengthen the supply base. And we're going to be looking to find ways in which we can do that amid this uncertainty.

Clearly, for the suppliers with whom we've got firm-fix contracts, that additional burden will be borne by them. We'll work through, where appropriate, adjustments in our overall arrangements with them. Clearly, we've got some bigger suppliers. We've got our partnership with Safran as well, where it's a different dynamic. So there are a lot of moving pieces here, and that's probably why we wanted to take the step that we did this morning to include a good bit of that, as best we know it today, into the forward guide.

Again, to Doug's earlier question, we'll be advocating for a position which we believe to be very much aligned with the President's America First trade agenda. But to the extent that things don't change, to the extent that the reciprocal tariffs kick in in the back half, we want to make sure we're ready, hand-in-hand with our suppliers, large and small, in addition to taking the cost and price actions that we referenced. But it's a fluid situation. I think that's part of what I suspect we'll be talking about through the course of the spring and summer here, not the least of which is at Paris, as we work our way through this, along with everybody else.

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

So just to add maybe two points to what Larry said. One, we've learned a lot here over the last month or so since we started working the offsetting actions and understanding what programs are there that we can utilize to offset the gross impact. We are sharing that with our supply base and helping them understand what we know today. And I'm sure we'll learn from them as well as we compare notes. So that's one.

©2025 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

And the second, to your point about the duty drawbacks, they can claim the duty drawbacks for everything that we export. But obviously, we will provide them the documentation and the support they need to avail of that program.

Operator

Jason Gursky, Citi.

Jason Gursky - *Citi - Analyst*

Hey. Good morning, everybody. I just wanted to ask a bigger picture question on the defense side of things. We've seen kind of a flurry of executive orders come out of the White House. And most recently, we got one related to the potential to rewrite federal acquisition regulation.

So I just wanted to get a sense from you all on what impact that might have on the industrial base. The administration seems to be pitching this as, quote, unquote, kind of cutting red tape and speeding up the acquisition process. But I'm wondering if that's always a good thing or are there going to be some unintended consequences that we should be on the lookout for as we look at this kind of rewrite.

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

Yeah. So Jason, I don't know if we know exactly what's on your mind, but the couple that I'm aware of or we are aware of here, and we could take it offline if that doesn't get to your question, which is I think there are two pieces.

One is the FMS reform to support and deliver more efficiently and effectively our export to our allies. And we at GE Aerospace are fortunate to be in a position where we have several highly capable programs that have a lot of international demand, whether it's Black Hawks, Apaches, F-16s, and soon to be exported the F-15EX. So all these improvements allow us to get our products in the hands of our allies, and that's a really welcome improvement. So we appreciate everything that's done, and that will help support our growth, but also that of the broader industry.

And then, the other improvements and requirements and acquisition processes to define the requirements, so that elimination of any bureaucratic issues there also supports us. So and then, a few other things that are about loss programs and all that. Now, again, we don't have a ton of that in our portfolio, so that does not directly impact us. But again, I think holding the industry accountable for its performance is not a bad thing.

Operator

Ron Epstein, Bank of America.

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

Hey. Good morning, guys. Maybe a little different angle on the tariff question. How are you all thinking about rare earths and some of the rare metals that you need either directly in what you do or what your suppliers need, given some of the changing rules in China? I mean, do you have it inventory or do you have alternative ways to source it? How are you thinking about that?

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

As you would imagine, we've been thinking about that a lot. I'm sure everybody else in the space has. Between alternate sources and inventory positions, both our own and with our supplier partners, we don't currently see any real issues here. There's some things that we'll continue to work through. We'll see how this is resolved from a trade negotiation perspective. But that's not high on our worry list at the moment.

©2025 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Operator

Scott Mikus, Melius Research.

Scott Mikus - *Melius Research LLC - Analyst*

Morning. Hey, Larry. I just wanted to ask a quick question on the pricing dynamic. So pricing in the aftermarket has been very healthy the past several years, but now airlines are seeing softening demand for travel. The departures at least seem to be holding up for now. So I'm just wondering, how are you thinking about balancing the price increases to offset tariffs and inflation while avoiding demand destruction so engines aren't seeing premature retirements?

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

Scott, there's clearly a balancing act here. I think what we've always tried to do is really adhere to a handful of principles with respect to making sure we share in the value that we create, are compensated for the risks that we take on, and obviously deliver adequate returns on the investments, the long-term, long-cycle investments that we make.

I think Rahul talked about how we're going about some of the longer-term actions, both around some of the new programs like LEAP, how we're approaching the CLP, the spare parts pricing later this year, and the surcharges, the hopefully temporary surcharges vis-à-vis the tariffs. So all of that's in play, and again, we need to balance that out in the right way given the competing priorities here. But I think we're optimistic that we can do that smartly, fairly, constructively with our customers around the world, and do so in a way that doesn't, as you say, destruct demand.

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

Liz, I think we will wrap it up there. Larry, any final comments?

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

Blaire, thank you.

Just to close, our customers and the flying public are counting on us -- we know that -- and we're confident in our ability to deliver. The GE Aerospace team is up to that challenge. We continue to increase our delivery of services and products, keeping safety and quality top of mind, while developing the technologies for the future. 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.

©2025 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2025, Refinitiv. All Rights Reserved.

©2025 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV