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CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Andrew Alec Kaplowitz *Citigroup Inc., Research Division - MD and U.S. Industrial Sector Head*
Andrew Burris Obin *BofA Securities, Research Division - MD*
Christopher M. Snyder *UBS Investment Bank, Research Division - Analyst*
Deane Michael Dray *RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment & Analyst*
Jeffrey Todd Sprague *Vertical Research Partners, LLC - Founder & Managing Partner*
Joseph Alfred Ritchie *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*
Julian C.H. Mitchell *Barclays Bank PLC, Research Division - Research Analyst*
Nigel Edward Coe *Wolfe Research, LLC - MD & Senior Research Analyst*
Scott Deuschle *Deutsche Bank AG, Research Division - Research Analyst*
Seth Michael Seifman *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst*
Sheila Karin Kahyaoglu *Jefferies LLC, Research Division - Equity Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the General Electric Third Quarter 2023 Earnings Conference Call. (Operator Instructions) My name is Liz, and I will be your conference coordinator today. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the program over to your host for today's conference, Steve Winoker, Vice President of Investor Relations. Please proceed.

Steven Eric Winoker ***General Electric Company - VP of IR***

Thanks, Liz. Welcome to GE's Third Quarter 2023 Earnings Call. I'm joined by Chairman and CEO, Larry Culp; and CFO, Rahul Ghai.

Some 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 on our website, those elements may change as the world changes.

Over to Larry.

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

Steve, thank you, and good morning, everyone. Before we start, I want to reiterate that the GE team stands firmly with our employees, customers and all those impacted by the brutal Hamas attacks on Israel in the subsequent war. Our priority has been the safety of GE employees in the region. We're doing everything possible to support them and their families.

Last week, GE announced a $0.5 million contribution to help with the humanitarian efforts for the many people in Israel, Gaza and the surrounding areas impacted by these horrific events.

Terrorism has no place in our society. And like so many, I'm devastated by the loss of lives, violence and suffering of innocent people.

Turning to the quarter, GE delivered a very strong performance, and we're raising full year guidance again. GE Aerospace continues to experience rapid growth driven by robust demand and solid execution, largely in Commercial Engines and Services, another significant quarter for the team. Our fleet of 41,000 commercial engines and 26,000 rotorcraft and combat engines continues to expand as we work to define the future of flight.

Today, we're navigating a still challenging supply chain environment to deliver for and support our customers. Year-to-date, commercial engine deliveries are up 30%. Across GE and Safran's MRO shops this quarter, we've improved LEAP quick-turn shop visits over 30%

year-over-year and sequentially.

For tomorrow, we're building our backlog and sales pipeline during unprecedented industry growth. Recently, Air Canada ordered 36 GEnx-1B engines plus 4 spares, building on GENx's rich history as the fastest-selling high-thrust engine with over 50 million flight hours.

For the future, we're investing in R&D and developing next-generation technologies. For example, we're advancing full system testing for our hybrid electric systems at our electric power center in Ohio. We're also collaborating with industry partners and NASA on an ecoDemonstrator program to measure sustainable aviation fuel impact on the environment, particularly high-altitude emissions.

And our growth opportunities extend beyond commercial. In Defense, we're pleased the U.S. Army has accepted the first 2 T901 flight test engines for the Future Attack Reconnaissance Aircraft prototypes. The T901 will also upgrade the U.S. Army's Apache and Black Hawk helicopters, providing 50% more power, reduce life cycle costs and lower fuel consumption. And we've been selected for development work on the cockpit voice and flight data recorder systems for the Future Long-Range Assault Aircraft program.

Next-generation programs like these demonstrate how GE's rotorcraft programs enable the military and our allies to take on more challenging missions today and in the future. And we're pleased to see Congress recognizing this important work by including funding for advanced engine development, like the XA100, in both the House and Senate fiscal year '24 defense appropriation bills.

However, even with these strong results, we're far from satisfied. Through our lean transformation, we're making real progress, improving flow and eliminating waste. For example, our team in Pune, India has increased output of LEAP high-pressure turbine manifolds by 3x.

But we need to do more as do our suppliers, given the pace of demand for both aftermarket services and new engine deliveries. There are pockets of improvement now. Material input increased double digits sequentially, supporting spare parts delivery, which was up significantly year-over-year. We're working within our own plants and in partnership with our suppliers to deliver sequential improvements in output and turnaround times day by day, week by week.

Over to GE Vernova, where performance is strengthening pre-spin at both Renewable Energy and Power. Customers continued to invest in the energy transition, driving meaningful demand for our products and services.

Grid and now Onshore Wind were both profitable this quarter, and we expect improved performance from here. Grid customers are increasing their infrastructure investments globally to connect renewables and improve reliability. Year-to-date, orders remained strong at more than 3x revenue and with higher margins, which will support profitable growth through the decade. We've also increased selectivity, streamlined costs and rationalized our industrial footprint, tracking toward full year profitability at Grid.

I really like the way the Grid team is using lean to drive this turnaround and to deliver profitable growth. For example, across Power Transmission's 14 sites globally, we've reduced lead time by roughly 15% year-to-date and we're targeting a 20% reduction by year-end.

Now with Onshore. Our strategy to focus on fewer markets, pivoting more toward North America where GE Vernova is the market leader is working. And we're relying more on our workhorse products, now representing 70% of equipment volume this quarter. These shifts are translating to 700 basis points of higher margins in backlog this year.

We're still driving cost out, fewer layers, reducing head count and empowering leaders closest to the operators.

Finally, we're improving fleet reliability. We're now halfway through our enhancement program in the field and expect to be roughly 60% complete by year-end.

As expected, Offshore Wind remains difficult this year with losses of roughly $1 billion in 2023. Next year, we expect Offshore will have similar losses, but substantially improved cash performance. So it's a tough $6 billion backlog that we're working our way through, which we expect to largely complete over the next 2 or 3 years.

Meanwhile, we're making operational progress with rising availability on the 800 installed megawatts of our 6-megawatt platform. Electricity is now being produced at Dogger Bank, and we recently had the installation of our first Haliade-X turbines at Vineyard Wind.

Looking forward, we've expanded Vic Abate's role to CEO of the entire Wind business to leverage our progress in Onshore at Offshore. We're taking a similarly disciplined approach to writing new business, like we've done over at Gas, Onshore and Grid with increased rigor on pricing, terms, geographic exposure and other risks.

All in all, given Power's continued strength and with our 2 largest businesses in Renewables, Grid and now Onshore delivering plus our plan for Offshore, we're highly confident in successfully spinning off GE Vernova early in the second quarter.

Across GE, I'm pleased with how we're operating as a simpler, more focused business at both GE Aerospace and GE Vernova. Another strong quarter, but plenty more to do. My thanks go out to the team for their dedication and commitment to serving our customers.

It's been nearly 2 years since we announced our intention to create 3 independent investment-grade industry leaders, and now we're closing in on the final step. Today, we announced plans to spin off GE Vernova and launch GE Aerospace in the beginning of the second quarter of 2024. Both will be listed on the New York Stock Exchange with the GE Vernova as "GEV" and GE Aerospace carrying forward under "GE."

We've made some important hires and promotions to ensure we have the best teams leading these businesses forward. At GE Aerospace, we've completed the functional leadership team, naming our heads of Corporate Affairs, Human Resources, Legal and Treasury with experienced leaders from inside and outside GE. At GE Vernova, we added seasoned public company CFO, Ken Parks. As I mentioned a moment ago, Vic Abate is now CEO of the Wind business.

We've also further simplified and strengthened our balance sheet by redeeming the remainder of our preferred equity and selling a portion of our AerCap shares for $2.7 billion of proceeds. Our balance sheet is well positioned to support the launch of 2 investment-grade companies.

And we're approaching some key spin milestones. GE Vernova will file a confidential Form 10 shortly with the initial public filing expected in the first quarter. Soon, we'll announce each company's Board of Directors. And in early March, GE Vernova and GE Aerospace plan to hold Investor Days.

Building on our success at GE Healthcare, we're exactly where we want to be at the end of October for both GE Aerospace and GE Vernova.

Now over to Rahul for more detail on our results.

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

Thank you, Larry. Turning to Slide 4, I'll speak to the quarter on an organic basis. Overall, we delivered meaningful growth across our headline metrics. Orders were up double digits with services up 15%, driven by commercial aerospace; and equipment up 22% with growth in all segments.

Revenue increased 18%, benefiting from strong market demand, improved execution and pricing. Aerospace was led by Commercial Services and Engines, Renewables was led by Grid and Offshore and Power from heavy-duty gas turbines and Aeroderivatives.

All segments contributed to adjusted margin expansion of 760 basis points. This included the absence of last year's Wind-related charges and the benefits of volume, price, net of inflation, and productivity and continued investments in growth.

Adjusted EPS was $0.82, up almost $1 year-over-year. Excluding last year's Wind-related charges, adjusted margin still expanded 400 basis points and EPS was up $0.59 or more than triple what we delivered last year.

We generated $1.7 billion of free cash flow, up roughly $1 billion, largely driven by earnings.

Working capital was a positive $400 million flow, driven by disciplined receivables management, while inventory remained inflated due to continued supply chain challenges.

Year-to-date, free cash flow was $2.2 billion, up $2.5 billion, reflecting higher earnings, reduced working capital and improved linearity.

Switching to corporate. Results improved significantly due to energy financial services gain on sale from investments and higher interest income. Also, as we prepare to reduce costs, as we prepare to become standalone businesses, for the year, we now expect expenses in the $500 million range.

At Insurance, we completed our annual review of liability cash flow assumptions under the new accounting standard. This resulted in an immaterial adjustments to earnings, indicating claims experience is consistent with our models.

Given GE Aerospace's strength and GE Vernova's improvement, we are raising full year guidance and now expecting revenue growth of low teens, up from low double digits; adjusted EPS of $2.55 to $2.65, up $0.40 at the midpoint, largely from improvement in operating profit that we now expect to be in a range of $5.2 billion to $5.5 billion; and free cash flow of $4.7 billion to $5.1 billion, up $550 million at the midpoint, largely from higher earnings and lower AD&A outflow.

Now spending a moment on each business, starting with GE Aerospace. Demand remains robust with GE and CFM departures growing mid-teens year-over-year. Orders were up 34% with strong growth in both equipment and services.

Revenue was up 25%, led by Commercial Engines and Services up 29% and Defense growing 8%.

Profit grew over $400 million or more than 30%.

Notably, margins expanded 120 basis points to reach 20.4%. Higher services, volume and pricing, net of inflation, more than offset investments and adverse mix.

In our Commercial business, services strength continued to drive profit with services revenue up 31% from volume, pricing and heavier work scopes. External spare parts were up more than 35% and internal shop visits grew 2% with supply chain constraints impacting growth. Commercial Engines revenue grew 23% with LEAP deliveries up 12% year-over-year.

We are now planning for a 40% to 45% increase in fleet deliveries this year, down from our 50% target at the beginning of the year. We now expect OE revenue to grow low to mid-20s and services revenue to be up mid- to high 20s for the year.

In Defense, book-to-bill remained strong this quarter, again, greater than 1 and 1.3x year-to-date, highlighting the strong demand environment and quality of our franchisees. Revenue grew high single digits with strength in services and Edison Works offsetting lower unit deliveries.

Based on GE Aerospace's year-to-date strength, we are raising revenue growth to the low 20s and profit to be about $6 billion, up roughly $1.2 billion year-over-year with free cash flow growth trending better than prior expectations.

Moving to GE Vernova. Lean, along with better underwriting, selectivity and productivity, is delivering stronger results we mentioned earlier at Grid and now Onshore. At Renewables, orders grew again, up 3% this quarter and up more than 80% year-to-date to nearly $18 billion. Grid orders increased over 50% this quarter. And while primarily an equipment business today, we are starting to grow Grid services that was up double digits this quarter.

In Onshore, North American equipment orders for the quarter were up nearly 40%, and year-to-date are up more than 2.5x over prior year. The IRA continues to be transformative, establishing multiyear U.S. demand visibility for future growth. Internationally, Onshore orders were down meaningfully but at better margins, consistent with our strategy of greater selectivity.

Revenue grew 14%. Grid increased with double-digit growth at each business. At Onshore, North American equipment growth was more than offset by lower repower and international equipment. At Offshore, revenue more than tripled year-over-year and grew sequentially with higher nacelle output.

Profit improved from our turnaround efforts. Excluding last year's elevated reserve, Renewables margin still expanded roughly 600 basis points driven by continued price and productivity. Onshore and Grid margins expanded due to price and productivity, and Grid margins also benefited from additional volume.

For the year, Renewables now expect low double-digit revenue growth. We are maintaining the guidance for significantly better year-over-year profit with Onshore and Grid improvement more than offsetting the Offshore pressure.

Turning to Power. We delivered solid year-over-year revenue growth and margin expansion with seasonally lower outages. Equipment orders grew slightly as higher heavy-duty gas turbines more than offset lower Aeroderivative units. Services declined slightly as high single-digit growth in gas transactional services was offset by Aeroderivative and steam services.

For the year, we still expect total services orders to grow low single digits.

Revenue grew 9%, largely on price and higher scope on heavy-duty gas turbine and Aeroderivative equipment. Services grew again, up low single digits.

Profit grew roughly 60% with 200 basis points of margin expansion driven by higher volume, pricing and productivity, which more than offset inflation pressure.

Year-to-date, Power orders have grown low single digits, revenue mid-single digits and margins have expanded over 100 basis points. This was led by services including higher gas utilization, up low single digits, benefiting from a continued coal-to-gas switching. We also shipped 9 HA units this year and now have more than 47 gigawatts of installed capacity, continuing to extend our HA services billings to $1 billion by mid-2020s.

In the fourth quarter, Power is well positioned for sequential profit growth from seasonally higher services volume. For the year, Power continues to expect low single-digit revenue growth with better year-over-year profit.

Taken together, for GE Vernova, we are now expecting high single-digit revenue growth and profit improvement of over $800 million year-over-year at the midpoint. We are raising the low end of our profit guidance driven by both Renewables and Power and now expect negative $300 million to negative $100 million of operating profit as we continue to expect flat to slightly improved free cash flow.

Overall, we are really encouraged proving with Grid and Onshore that we can deliver better results. This, combined with Power's continued strong performance, will drive meaningful profit and cash flow improvement at GE Vernova next year.

And with that, let me turn it back to Larry.

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

Rahul, thank you. To summarize, GE Aerospace grew rapidly again, and GE Vernova Renewables improved sequentially and Power continued to perform well. Overall, a very strong quarter for GE, one that gives us confidence and thus allows us to raise our full year guide. More importantly, we're poised to launch 2 innovative global service-focused industry leaders in less than 6 months.

I'm proud of our team and even more excited for what lies ahead. Steve, let's go to Q&A.

QUESTIONS AND ANSWERS

Steven Eric Winoker ***General Electric Company - VP of IR***

(Operator Instructions) Liz, please open the line.

Operator

(Operator Instructions) Our first question comes from the line of Scott Deuschle with Deutsche Bank.

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

Rahul, is the lower LEAP delivery guide a function of softer narrowbody deliveries at the airframers? Or is this more related to challenges to your own production ramp-up? And then how should we think about the impact to 2024?

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

Yes. Let me start, and Larry, I'm sure can add here. It's primarily a function of our own supply chain challenges that we are having internally. As we look at our supply chain environment, while we are working extremely hard, we are seeing an improvement in total material inflow, the supplier delinquencies still remain high, actually were up sequentially about 25% from 2Q to 3Q. So that is impacting our output on the other end. And for next year, we're still expecting [20% to 25%] (corrected by company after the call) improvement in LEAP deliveries from where we end this year.

Operator

Our next question comes from the line of Nigel Coe with Wolfe Research.

Nigel Edward Coe ***Wolfe Research, LLC - MD & Senior Research Analyst***

Just one question. So I think, Larry, you mentioned the Offshore losses, about $1 billion this year and I think you mentioned similar next year. Is there still a pathway to breakeven to profit for Vernova -- sorry, for Renewables next year?

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

Yes. I would say, Nigel, that we're really pleased overall with Renewables. Again, with Onshore turning profitable in the quarter, with Grid now profitable 2 quarters in a row with the prospect of being profitable, I think for the full year, that really, I think, sets us up very well. But Offshore will be difficult. That's what's behind those underlying numbers for this year and for next.

I do think we're making the operational progress that we talked about, both the 6 megawatts and the new projects with Dogger Bank and with Vineyard. But it is a problematic financial profile. We'll work our way through the $6 billion backlog over the next couple of years, as we indicated.

I think with the progress and the momentum we've got in Grid and with Onshore, with Power as well, we've got -- we should deliver sequential improvement in profitability from here, but Offshore will be difficult. I think what we're encouraged by, though, is that the application of what we've done in the other businesses around selectivity is really relevant here.

We know the industry is ready for a reset. You've seen that in the comments from a number of folks in New York State over the last couple of weeks as well. So we think we can make a much better business with Offshore Wind, but we're staring at some challenges that we need to address here in the fourth quarter and in '24 for sure.

Operator

Our next question comes from the line of Seth Seifman with JPMorgan.

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

So I wonder maybe, Larry or Rahul, if you could talk about the aftermarket expectations. You said mid- to high 20s this year. Maybe kind of how that's changed or if it's changed between internal shop visits and spares? And then kind of how we interpret the big sequential growth in spares during the quarter. Was that -- is that a new sustainable level? Is that -- was that driven by prebuy ahead of a price increase? Is it mostly -- is it driven by the price increase itself? Maybe just to level set expectations on aftermarket.

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

Yes. So let's start with the second part of the question first, Seth, and we'll go back to where you started. So on the spare part revenue, spare part revenue was up about 35% or more than 35% this quarter.

I would say 3 main things: volume, pricing and increased work scope. Volume growth continues from mid-teens departures in the quarter and then stronger departure growth in the first half, which leads to volume in the third quarter. And also keep in mind that it's less of a challenge to kind of ship spare parts versus completing a shop visit or an engine, so that also helps with shipping spare parts when the volume is strong.

The second part, I would say, going back to pricing, we implemented a high single-digit price increase this quarter. Now we had pulled forward the price increase from the fourth quarter to the third quarter. So we got a couple of months of incremental price in the quarter.

And then combine that with what Larry has been pushing for the last 12 to 18 months as just very, very strong pricing discipline. So it's not just about implementing a price increase, it's also about managing the implementation of that price increase. So I think we're doing a better job of that.

The last thing I would say is the work scopes have been heavier, both on the narrowbodies and on the widebodies. So widebodies, they're coming back to kind of second shop visits. Narrowbodies is primarily a phenomena of customers kind of trying to constrain spending in challenging times, especially in China last year. So now as they have a little bit more cash with departures growing, their work scopes are increasing.

So I would say those are the 3 main levers of higher spare parts growth in the quarter, which was more than 35%. I would not attribute any of that to pre-CLP buy.

Now as you look forward, to the first part of your question, between spare parts growth and shop visits, spare parts, I would say, are strong. We expect kind of mid-20s growth in the fourth quarter here, which will be in line with where the departures are.

Shop visits, I think for the year, we're in that kind of low teens to mid-teens category. I think that's what we are thinking right now given how challenging supply chain has been and shop visits were up a couple of points in the third quarter. So we think that for the year, we're kind of in the low teens to mid-teens range.

Operator

Our next question comes from the line of Julian Mitchell with Barclays.

Julian C.H. Mitchell ***Barclays Bank PLC, Research Division - Research Analyst***

Maybe just my question around Renewables and sort of fully understand the Offshore backlog. But maybe just wanted to focus on a couple of other things. One was are you seeing any shift in the kind of new orders -- or new equipment orders picture in Renewables just because it seems a tougher environment for project development and financing in general across different industries. Just wondered if your perspective on that has changed for the coming quarters?

And sort of allied to that, because of the working capital dynamics of Renewables with customer advances and so on, any thoughts around sort of what level of cash balance Vernova should have upon spin and sort of any mix of GE versus external financing for that or funding for that cash balance?

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

Sure. Well, to start with, I think what we have seen through the course of the year, again, particularly with Onshore and Grid, is just incredibly healthy demand despite the rate environment.

Obviously, the incentives here, the incentives in Europe, the push with respect to the energy transition at large really has kept us very busy. So no change really whatsoever with respect to our commentary in that regard.

I think as we look into the fourth quarter, as we look into '24, any 1 project can move for various reasons. But I think we continue to be quite optimistic about the underlying demand that we see in those businesses. We know Offshore has its own dynamics again to the reset comment I made a moment ago. But by and large, I think we're feeling very good about the demand environment.

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

Right. And just to add to that, Julian, not only is the demand environment good, but as Larry kind of mentioned in his prepared remarks, we are seeing better pricing and the selectivity, the strategy that Scott, Larry, Vic or everybody has been pushing come through.

Our Grid backlog margins were up about 3 points and Onshore backlog margins were up about 7 points in the quarter. So that should obviously help with -- through the turnaround efforts in 2024. So strong demand environment, good pricing on the Renewables orders.

Now switching to your second question on the cash balance. First and foremost, we do expect both Vernova and Aerospace to be investment-grade at spin, right? So that's kind of priority #1. And as we announced back in September that we do expect that Vernova will spin in a net cash position.

So we're working through our framework on exactly what that number looks like. Obviously, what we want to do is we want to make sure that both companies have enough operating cash at the time of spin.

In addition, what will also happen is, as you probably noticed in our 10-Q, we have about $2 billion of restricted cash. And most of that is with Vernova right now as we think about where that cash balance is.

So as we think about the cash balance at spin, it will be the restricted cash for both businesses plus the operating needs of that business. And there's enough cash on the balance sheet at GE to make sure that this happens, and we definitely don't need to tap into any external markets to make sure that both companies have enough cash at spin. And we'll give you an update as we get closer to spin.

Operator

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

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

Maybe if I could ask about Aerospace margins. Same as last quarter, very good, 19.4% year-to-date, above 20% in the quarter just helped lift the guide up, which still implies a sequential step down in Q4. So the OE mix headwind with the 450 [LEAPs] in the fourth quarter to hit the 1,650 is, I guess, a lot of it. Do you still expect 250 basis points of OE headwind this year? How does that filter into '24 and the breakeven by '26?

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

Okay. It's a multi-part question, Sheila. I'm going to try to remember everything. If I forget, just please jump in here.

So you're right. I think we had a good quarter. 25% revenue growth, $400 million profit growth, 120 basis points of margin expansion in the quarter continue to give us confidence to raise the year. So what we did in the quarter, as you saw in the guide, we raised the guide for the year by about $500 million of revenue and slightly more than $250 million of profit. So about a 50% drop-through for the incremental revenue. Obviously, now part of that is the higher services revenue, lower OE revenue that you referenced.

So as you kind of think about now what the fourth quarter looks like as you go from third quarter to the fourth quarter, there is about $200 million of incremental OE revenue. And even though services revenue is still strong kind of mid-teens, it is a lower sequential growth just given the timing of the spare part shipments. So that's impacting the quarterly margin dynamic to a little bit.

But having said all that, we're still expecting kind of low 20s percent revenue growth in the year for GE Aerospace, about $1.2 billion to $1.3 billion of profit, close to 1 point of margin expansion as we end the year. So it will be a really, really good year.

Now as you pointed out, LEAP deliveries are a little bit lighter than we had initially expected. Still a pretty substantial ramp in the fourth quarter we're expecting. Based on the revised guidance that we just provided, we expect about a 15% growth from 3Q to 4Q and a pretty big ramp year-over-year.

Now some of the LEAP deliveries have pushed out into '24 and '25. So as we think about the outer year margins, we had guided to about 1 point of margin headwind from LEAP between '23 to '25. So now that will just be marginally higher, just movement of LEAP engine shipments from '23 to '24. I don't know if I covered all the questions.

Operator

Our next question comes from the line of Deane Dray with RBC Capital Markets.

Deane Michael Dray ***RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment & Analyst***

Was hoping if we could get some comments on the upside in free cash flow this quarter and the progress that you're making in having free cash flow more linear through the year? Looks like that's working. And any comments on the dynamics we should expect for free cash flow in the fourth quarter. Any puts or takes?

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

Well, Deane, thanks for noticing, right, to be up $1 billion in the quarter year-over-year; to be at, what, $2.2 billion here year-to-date. This was the time of the year in years past where we were kind of holding our breath waiting for all the cash flow in the year to come in, in the fourth quarter.

I think what you see again is a much more linear approach to running the business, coupled with obviously steady demand through the course of the year, both at Aero and across Vernova. So much of what we've tried to do in moving away operationally from the year-end dynamics, let alone the quarter-end dynamics, I think has borne some fruit. But we are far from, so to say, a perfectly level loaded business at both Aerospace and Vernova.

But we know as we continue to make progress, there will not only be the positive cash effects that you're pointing at. But frankly, there's a lot of cost we think we can pull out over time as well as we drive greater linearity and have less month-end, quarter-end, year-end sprints, which we know we can do, but we rarely do efficiently.

Steven Eric Winoker ***General Electric Company - VP of IR***

Yes. And for the fourth quarter, just on that number question, just take the $4.7 billion to $5.1 billion midpoint, subtract our year-to-date number that Larry mentioned, Deane, you end with a few billion.

Operator

Our next question comes from the line of Andy Kaplowitz with Citigroup.

Andrew Alec Kaplowitz ***Citigroup Inc., Research Division - MD and U.S. Industrial Sector Head***

Larry, could you give us more color on how you're thinking about the Defense business at this point? It was up high single-digits in the quarter. It does seem like you're having a better year this year. Have you turned the corner towards better operating performance in that business? Could you talk about the budgeting environment for that business moving forward?

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

Well, Andy, I would say that we have made some progress, but we are far from satisfied. You clearly saw the high single-digit growth in the quarter and now year-to-date. And I think we'll be in that zone for the year.

But the supply chain challenges that we've talked about, which has made some of our equipment shipments somewhat lumpy, both with respect to our internal process yields and our material availability from our suppliers, is still job 1 in this business, right?

I think if you look at what we've done inside of our own shops, we're really encouraged by the process improvements that we've been able to lay in. If you look at some of the delays that are a function of quality internally in the third quarter, we were at our lowest level in the last 2 years. Still plenty to do, but that's a lot of progress.

We're adding capacity, not only in production, but in our test cells, particularly up the road here in Lynn.

And we have put even more people into the field with the supply base. Rahul mentioned earlier some of the delays that we have seen in terms of on-time performance by our suppliers. And that covers an array of commodities, be it just general raw materials, castings, forgings, valves and the like, there's a lot of work to do to create that flow that Deane and I were talking about a moment ago.

I think in terms of the top line environment, again, really encouraged by the progress that we're seeing with FARA. I think we are heartened by what the Congress is poised to do with respect to continuing to support the XA100. And we know as we look forward, just given the dynamics in the world, there's going to be plenty of opportunity for us, both on rotorcraft and in combat, to continue to grow this business.

And it's a business we don't talk a lot about. It may be a bit overshadowed by Commercial. But that's not the way we're operating today. And I think as we get ready for the Vernova spin, there'll be more time and attention paid externally on Defense and I think the team is very much looking forward to that. We're doing a lot of good work, plenty of opportunities, but we need to execute better. And again, we need our suppliers hand-in-hand in that effort.

Operator

Our next question comes from the line of Jeffrey Sprague with Vertical Research Partners.

Jeffrey Todd Sprague ***Vertical Research Partners, LLC - Founder & Managing Partner***

Could we just talk a little bit more about cash flow and kind of what you're thinking into next year? The spear to my question, Larry or Rahul, is we're still dealing with kind of a sizable difference between actual free cash flow and adjusted free cash flow. I think some of this is warranty and other things working through the system. Can you just elaborate a little bit on the factors in the disconnect? And can we get to maybe a normalization of these factors as we think about the independent companies in 2024?

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

Yes. Let me kind of -- let's just spend maybe a minute on our free cash flow here. So first, as you look at our cash for the year, it's a really good year. I mean we're going to generate $4.9-ish billion of free cash at the midpoint, up from $3.1 billion that we did last year. And a lot of that is coming from earnings growth. Clearly, that is a huge contributor and that is helped by kind of lower interest payments.

But if you look at our working capital performance continues to be really strong this year. I mean, you've seen our year-to-date numbers. You've seen even as you project that into the fourth quarter. We are doing an exceptional job managing our days sales outstanding. So despite our top line revenue growth, we are still expecting that overall, our AR balance will be neutral, Jeff.

And the reason I say that is just kind of shows the opportunities that the business has for continued improvement. And then progress payments, contract assets continue to be a positive as well given the strong growth environment.

The part there I want to anchor on is a little bit on ground inventory. Given the supply chain challenges that we are having, inventory, as you will see from our Q, was up substantially in the quarter. Now we're expecting it to come down slightly as we get into the fourth quarter, but it will still be a substantial inventory build by the end of the year. So -- and as we look forward to '24 and '25, that should start getting liquidated with improved supply chain performance.

So that is where -- I would say that is what gives us the confidence that this will be a continued good cash flow story. Now as you look, overall, we'll be at about 160%-plus of free cash flow to net income. Part of that is amortization. But even if you take amortization out, it's still 130% free cash flow performance. So it's still very, very strong.

Now on your question on between -- I think most of that adjustments below the line are related to spin-related adjustments. I don't think there's anything -- and insurance and spin-related restructuring costs and expenses. So -- and some of that will obviously continue as we go into '24 and maybe even a little bit into '25. But after that, at least a spin and the restructuring cost should add. And the insurance is not a big number.

Operator

Our next question comes from the line of Andrew Obin with Bank of America.

Andrew Burris Obin ***BofA Securities, Research Division - MD***

It's -- I didn't hear. I assume it's me. Okay. So just a question on Onshore Wind capacity. How close are you to the maximum capacity in Onshore Wind? Right, I think in the past, we've shipped over 1,000 turbines in the quarter, but there have been capacity reductions. Just trying to understand how close you are to maximum throughput at this point?

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

With respect to Onshore, Andrew?

Andrew Burris Obin ***BofA Securities, Research Division - MD***

Yes.

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

Yes. I would say that when you look at the backlog that we have and with what's in the sales pipeline, I wouldn't say that we are sold out, but there is a limit to what we're going to be able to deliver in '24 and '25. And I think our customers are mindful of that. It's a little bit why we have seen, I think, the level of activity thus far this year with an eye to not only deliveries this year, but '24 and '25.

I'm always hesitant, Andrew, to talk about capacity, particularly in a business like this as truly being fixed because there's so much underlying process improvement that can unleash capacity. It's not strictly a function of, if you will, fixed capital investments that we've made. Not that we would be averse to that, but I think we wanted to really pare down the overall cost structure, not strictly an effort focused on manufacturing capacity and really put ourselves in position to grow off a lower cost base, do that in ways that will allow delivery to be an advantage and then gradually, smartly add any fixed capital that we might need.

If you look at the underlying performance that the Onshore Wind team has delivered here in the third quarter, will deliver in the fourth quarter, I think it's poised to deliver in '24 and beyond, you see all that coming home, which we're pleased to see, of course.

Operator

Our next question comes from the line of Joe Ritchie with Goldman Sachs.

Joseph Alfred Ritchie ***Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst***

And so just sorry for the multipart question. But I guess just on the timing of the spin, early 2Q or the beginning of 2Q, so is it right to expect it ahead of 1Q earnings?

And then secondly, on the profitability dynamics in both Onshore and Offshore Wind. I'd love to hear any more details around the type of profitability you expect to exit on Onshore Wind this year?

And then also with Offshore, it seems like you're shipping more this year and so that seems to be a good sign that you're getting through more of your unprofitable backlog. Any comments around that would be helpful as well.

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

Sure. I think to your first question, Joe, the answer is pretty simple. Yes, we should be in a position to bring forward Vernova ahead of our typical earnings announcement time frame in early in the second quarter.

I would say with respect to Onshore Wind, again, a lot of improvement. It will be a profitable second half, not unfortunately a profitable full year. We've got a shot at doing that at Grid, as I mentioned earlier. But I think as we look at '24 in Onshore, we should be in the low single-digit range with obviously the intention as we go through the budget cycle here in November and December to see if we can put together a credible plan to do better.

But that's the way I would think about it just given the back half momentum that we'll have entering into next year.

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

And Joe, just to kind of complete that picture on Renewables total, we -- as Larry said, we expect at least Onshore to be at least kind of low single-digit margins. Grid would be kind of mid-single-digit range. Offshore, as Larry said in his prepared remarks, it kind of -- we expect kind of similar levels of losses next year.

But if you put all that together, it's still a pretty significant improvement year-over-year on both profit and then even more so on cash. So that's what we are expecting. So we won't be too far off from the framework that Scott laid out at Investor Day for the Renewables business.

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

And Joe, just to make sure we're clear about the shipments, the progress that you're seeing at Dogger Bank and Vineyard. Operationally, I think we're pleased to see that. I know our customers are to see those initial installations and the initial generation of Power. However, right, that progress is what triggers the revenue recognition, which in turn carries the losses. So that's a little bit of what is operationally encouraging, but financially difficult to work our way through. So just wanted to clarify that point.

Operator

This question comes from the line of Chris Snyder with UBS.

Christopher M. Snyder ***UBS Investment Bank, Research Division - Analyst***

I'm assuming you can hear me. I wanted to follow up on Aviation margins, which continue to outpace expectations. And so I understand the mix headwinds are coming through maybe a bit more muted as the service business is doing better, but it also sounds like price/cost and just efficiency continues to work in the company's favor.

Can you talk about some of the company-specific actions that have been boosting or helping segment margins outside of just mix? And does the current strength you're seeing change the way you think about the 20% target for 2025?

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

So you're right. I mean there's lots of really good stuff happening in the company. Price is clearly a positive for us. It was a positive -- we were price/cost positive in '22 in Aerospace. We'll be price/cost positive in '23 in Aerospace. Not at the -- not only at the overall company level, but even at Commercial and at Defense. So that -- the business is doing really well on kind of getting the price increases and managing the inflation.

We've made progress on productivity as well. So that's the other part. Not to the extent that we would have liked, but it is progress. And we are encouraged by even the underlying progress on productivity that is currently sitting in our inventory numbers that will roll through next year. So there is positive momentum on productivity.

So all that is a positive. And as you think about kind of the 20% margin number for 2025, obviously, that's still -- we're still at the end of 2023. So it's a couple of years away. But as you think about where we're going to end the year to 2025, we're going to end the year, call it, at $6 billion of profit. We said between, call it, between $7.6 billion and $8 billion of profit for 2025. So we still have a $1 billion-ish of profit growth every year between '24 and '25. So that's a mid-teens profit growth, which is pretty good.

And the benefits of volume, price, productivity will be partially offset by this LEAP headwind that we spoke about. We start shipping 9X as well. So 9X, that's going to create some incremental pressure. And then we'll continue to invest in R&D. So that's the construct to get to the 20% margins.

Steven Eric Winoker ***General Electric Company - VP of IR***

So Larry, any final comments?

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

Steve, thank you. Just to close, appreciate everybody's time today. Obviously, very strong performance so far this year. A lot of progress towards the launches of both GE Aerospace and GE Vernova. And frankly, I've never been more confident in our company's future.

We appreciate your time today and your investment and support of our company.

Operator

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