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PRESENTATION

Operator

Good day, ladies and gentlemen. And welcome to the General Electric Fourth 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 Fourth Quarter 2023 earnings call. I'm joined by Chairman and CEO, Larry Culp; and CFO, Rahul Chai. We're also pleased to have GE Vernova's CEO, Scott Strazik here to share additional insights on performance and business guidance.

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. Over to Larry.

H. Lawrence Culp General Electric Company - Chairman & CEO

Steve, thank you and good morning, everyone. GE made tremendous progress in 2023 with excellent operating results, the successful spin of GE HealthCare and the ongoing lean transformation of our company. 2024 will be a momentous year as we launch GE Aerospace and GE Vernova in early April.

Looking at our results, we more than tripled our earnings and generated almost 70% more free cash flow in 2023. GE Aerospace drove double-digit revenue, profit and cash growth with continued strength in Commercial Engines and Services. GE Vernova delivered meaningfully better results as Renewable Energy and Power together generated positive profit and free cash flow. In the year ahead, we expect both GE Aerospace and GE Vernova to continue on their respective upward trajectories.

Let me spend a moment on each. GE Aerospace is an exceptional franchise with our fleet of 44,000 commercial engines and 26,000 rotorcraft and combat engines, plus extensive aftermarket services representing 70% of revenue. We live our purpose each day to invent the future of flight, lift people up and bring them home safely. It's a responsibility we take very seriously and our teams are focused on safety, quality, delivery and cost, in that order in everything we do to support our customers in the industry.

Strategically, today, we're executing to meet customer needs for engines and services. Despite the challenged supply chain environment, in the quarter, total engine deliveries were up 11% sequentially, including defense, up over 60%. We delivered 1,570 LEAP engines, representing 38% growth, yet with more to do going forward. As part of our lean transformation, we're developing connected flow using model lines to improve deliveries. By focusing on key constraints, we've reduced lead times, for example, over 40% on our ceramic matrix composite components. And in Services, we've improved LEAP shop visit turnaround times by double digits.
Lean is not only helping us with delivery but more importantly, when it comes to safety and quality. The team in Rutland, Vermont used lean problem-solving fundamentals to address recurring defects in our GE9x low-pressure turbine blades. This improved first-time yield by more than 50%. Lean actions like these within our plants and in partnership with suppliers are driving improvements across GE Aerospace.

For tomorrow, we're building our $150 billion plus backlog. At the Dubai Airshow, GE Aerospace, along with our partners received over 450 engine commitments and several service agreements across both widebodies and narrowbodies. This included an Emirates order for 202 GE9X engines and spares and a long-term services agreement to power its upcoming Boeing 777X fleet. And we're keeping our customers' fleets flying with durability and maintenance enhancements such as our LEAP-1A fuel nozzle cooling system that's on its way to fleet introduction.

And for the future, we're investing in R&D and developing next-generation technologies. Recently, NASA selected GE Aerospace for phase 2 of the Hybrid Thermally Efficient Core program, which will significantly enhance fuel efficiency and reduce emissions, improvements we'll leverage in our RISE program.

And the National Defense Authorization Act authorized funding for the adaptive engine transition program and the Next-Generation Advanced Propulsion program, which will help provide cutting-edge future military capabilities. All said, GE Aerospace is accelerating our progress with lean and driving value long term, all in service of our customers who carry the 3 billion people traveling with our engines under wing each year.

Over to GE Vernova, our ambition is to electrify and decarbonize the world with our technologies helping to generate approximately 30% of the world's electricity and where services represent 65% of our backlog, our incumbency and scale position us to lead.

We've made a lot of progress at Vernova. I'll give you the high-level framing and Scott's here today with additional color. Power delivered strong growth, profit and free cash. Grid was profitable for the full year. And Onshore delivered another quarter of profitability. Offshore remained challenging but I really like the way we're lean along with better commercial selectivity and underwriting to improve our outlook. GE Vernova will stand on its own soon. I'm proud of the team's work to strengthen these businesses.

And on a more personal note, I met Scott during my very first GE site visit. I have seen his leadership in action, as he's led the team in executing the impressive turnaround at Gas Power and now the strong momentum building with our Onshore and Grid businesses. Importantly, Scott is an ardent student of lean and I'm highly confident that he is the right person to lead GE Vernova into the future.

Turning to Slide 3 with our stronger, more valuable businesses delivering now, GE Aerospace and GE Vernova are ready to go. We've assembled 2 extraordinary Boards, bringing together domain expertise, diverse perspectives and leadership experience to help GE Aerospace and GE Vernova rise to their sharper, more focused missions. We've also further simplified and strengthened our balance sheet, fully exiting our AerCap equity stake.

Looking ahead, GE Vernova plans to publicly file its Form-10 next month. Then GE Vernova and GE Aerospace will host Investor Days on March 6 and 7, respectively, in New York City. Both teams are excited to share how we'll create greater value for our customers and shareholders alike. We hope to see many of you there.

Now over to Rahul.
progress collections, including recent sizable orders. This was partially offset by payables, including the actions we have taken to support our suppliers.

For the full year, revenue increased 17%. Aerospace and Renewables led the way, benefiting from robust demand, better execution and pricing. Services was up 15% and equipment up 19%. Profit, EPS and cash, all finished above the high end of our guidance.

Adjusted operating profit increased $2.5 billion to $5.7 billion. Adjusted margin expanded by over 300 basis points, driven by Aerospace growth, sizable Renewables improvement and price across the 3 businesses, partially offset by inflation on long lead items and investments in growth. Adjusted EPS increased more than $2 supported by strong profit growth and lower interest from debt reduction. Free cash flow was up over $2 billion to $5.2 billion, driven by significantly better earnings.

In 2023, working capital was a $1.6 billion source of cash from progress collections, partially offset by inventory build given robust growth and continued supply chain challenges.

A moment on Corporate. We ended the year with just over $1 billion of cash use and adjusted costs of roughly $460 million. This improved year-over-year due to lower functional expenses and higher interest income. Overall, it represents significant progress since 2021 when costs were $1.2 billion.

We are pleased to see Digital turn profitable as the team prepares to firmly join GE Vernova. Our industry-leading software helps utilities, grid operators and others address the growing complexity of energy transition. And GE Aerospace and GE Vernova are ready to go. The teams are fully staffed and corporate headcount, which was close to 5,000 just a few years ago, stands at less than 200 people, who will be with us into second quarter to execute the final spin. This temporary cost in the first half of 2024 is embedded in GE Aerospace's full-year guidance.

Stepping back, we are pleased with our performance in 2023. In 2024, on a standalone basis, we expect GE Aerospace and GE Vernova to grow revenue, profit and cash. We will share more on business guidance shortly.

Now turning to GE Aerospace. This quarter, demand remained robust with GE and CFM departures growing high-teens year-over-year. Orders were up 10% with solid services and commercial engine orders. Revenue was up 12%, driven by Commercial, up 15%. Profit was up 8%, benefiting from increased Services volume and pricing, net of inflation. This was partially offset by unfavorable equipment mix from the expected higher install and over spare engine deliveries and higher investments.

Reported margins were roughly flat year-over-year and down 70 basis points organically as unfavorable mix and investments offset higher volume and price, net of inflation.

In Commercial, Services revenue was up 23% from higher volume, pricing and heavier work scopes. External spare parts increased with higher LEAP volume and internal shop visits were up slightly.

Lean is enabling us to create new capacity to meet higher demand and decrease turnaround time and cost. For example, our MRO team in Prestwick, Scotland used lean to remove 76 hours of waste from their engine disassembly process, which will help them to go from servicing 3.5 engines a week to 5 engines a week.

Revenue grew 1% with LEAP deliveries up 22%. As expected, our mix continues to shift towards install engines.

In Defense, book-to-bill was 1x, underscoring solid demand and the quality of our franchises. Revenue was down 1%, driven by lower services while equipment grew double-digits from higher combat engine deliveries. For the year, revenue was up 22%. Commercial Services increased 30% with external spare parts up significantly and internal shop visits up 10%. Commercial Engines grew 21%, with total engine deliveries up 25% and spare engine ratio consistent with 2022.

Defense grew 7% with book-to-bill of approximately 1.2x for the second consecutive year and orders were up 9%. Profit was $6.1 billion,
increasing over $1 billion or 25% from services growth and pricing, net of inflation. This was more than offset -- this more than offset negative mix from higher LEAP volume and investments. Margins of 19.2% expanded 90 basis points on a reported basis and 50 basis points on an organic basis. Free cash flow of $5.7 billion increased approximately $800 million with improving earnings and working capital more than offsetting AD&A pressure.

Now I'll hand it to Scott, who will cover GE Vernova.

Scott L. Strazik  
General Electric Company - Senior VP, President & CEO - GE Power & Renewable Energy and CEO of GE Vernova  

Thanks, Rahul. It's a pleasure to join you, Larry and Steve, on the last GE earnings call before we launch GE Vernova, a purpose-built company that's enabling electrification and decarbonization.

We've built a strong, experienced leadership team and we're excited to welcome Jessica Uhl to our leadership team as President, overseeing technology, innovation and growth.

I'm encouraged by what our team accomplished in 2023 as we deliver meaningfully better results now. Our Renewable Energy and Power businesses combined drove double-digit revenue growth. We're slightly profitable, improving profit over $1 billion and generated $600 million of cash this year.

At Renewable Energy, our operational turnaround produced sizable improvement. In the fourth quarter, orders were just over $5 billion, including the cancellation of a large Offshore order that was originally booked in 2Q’23. Excluding this cancellation, orders grew over 20% led by stronger onshore equipment and repower. We also secured a record 2.4 gigawatt order to support Pattern Energy's SunZia wind project expected to be the largest wind project in U.S. history.

Revenue increased double-digits. Grid grew double-digits for the fifth consecutive quarter. Offshore more than doubled as we deliver our existing backlog. And Onshore grew, driven by North America equipment volume. Profit improved over $100 million as Onshore and Grid more than offset pressure at Offshore.

Looking at the year. Orders were $23 billion, up over 50% with revenue up 17%. Profit improved roughly $1 billion driven by price, quality and productivity in Onshore and Grid plus the absence of last year's largely Onshore-related charges. Free cash flow was negative $1.5 billion, which improved by over $0.5 billion from better earnings and higher down payments.

Looking closer at the businesses. At Grid, price and higher volume enabled full-year profitability following 3 consecutive quarters of profit, while our backlog more than doubled to over $12 billion with average margins and backlog increasing approximately 5 points.

Lean is core here. Take our Pennsylvania facility that makes transmission circuit breakers. We increased flow and doubled production capacity, helping reduce product lead times by about 35%. This will speed up delivery to customers at a time when demand is rising.

Onshore has been profitable for 2 consecutive quarters. North America equipment orders increased more than 70%. We've grown our global Onshore equipment backlog roughly 40% to nearly $9 billion and approximately 70% of the backlog is North America. Importantly, margins in our total Onshore equipment backlog expanded over 10 points due to continued selectivity and pricing.

We're delivering reliable, high-performing fleets with roughly 60% of our proactive enhancement in the field completed with more to come. We streamlined our product lineup, focusing on higher-quality workhorse products, roughly 70% of 2023 volume. And we're still increasing productivity and lowering fixed costs significantly.

Offshore Wind was challenging with losses of roughly $1.1 billion in '23. We're executing the existing backlog, improving productivity with lean. We're starting 2024 with an equipment backlog down to roughly $4 billion, which we expect to largely complete over the next 2 years.

Longer term, Offshore Wind should play a key role in the energy transition. The industry is beginning to reset and while it does, we'll be
highly selective on adding to the backlog.

Turning to Power. We delivered another strong year, led by Gas Power. Looking at the quarter, orders increased 4% with Gas services growing double digits. Equipment orders declined largely as we exit steam new build, partially offset by higher Aeroderivatives. Revenue was up 12% driven by Gas. Equipment revenue grew, driven by Aeroderivative and heavy-duty gas turbines.

Services were strong with higher contractual outages and upgrades. Profit was over $750 million with low-double-digit margins driven by services strength. As expected, margins contracted given higher equipment volume. In an individual quarter, additional units may weigh on margins but this drives long-term growth in higher-margin services and we're always focused on price and productivity to offset inflation.

For the year, revenue grew 7%. We delivered 58 heavy-duty gas turbines with 14 HAs. Services were strong, up mid-single digits, led by Gas. Profit of roughly $1.4 billion grew by 10%. Importantly, Gas achieved double-digit margins this year. Here, lean is enabling higher productivity and growth. For example, our Gas Repairs team in Mexico created standard work to reduce cycle time and cost, decreasing lead time by 75% and operating hours per unit by 44%. This is helping us deliver faster for our customers.

Free cash flow was over $2 billion, up roughly $200 million. Power continues to be a strong, reliable source of cash generation. We're pleased with Power's performance, a strong growing business where higher-margin services comprise around 80% of the backlog.

Now I'll turn it back to Rahul to discuss guidance.

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

Thanks, Scott. With the spin just around the corner, first quarter will be the last time are reporting combined GE results, including GE Aerospace and GE Vernova.

For this first quarter, we expect high-single-digit revenue growth driven by GE Aerospace. Adjusted EPS of $0.60 to $0.65, more than doubling year-over-year, driven by profit improvement and the absence of preferred stock dividend and free cash flow growth in line with net income growth.

Our 2024 annual guidance reflects each business operating independently for the full-year, incorporating standalone and other impacts that each will incur separately.

I'll now hand it over to Scott and Larry to share the overall GE Vernova and GE Aerospace guides and we will provide further details for both businesses in March. Scott, back to you.

**Scott L. Strazik General Electric Company - Senior VP, President & CEO - GE Power & Renewable Energy and CEO of GE Vernova**

Thanks, Rahul. GE Vernova is building momentum, expecting substantial profit and free cash flow growth in 2024. We see solid organic growth with revenue between $34 billion to $35 billion, up low-to-mid-single-digits from 2023 and adjusted EBITDA margin at the higher-end of the mid-single-digits range, up from low-single-digit EBITDA margin in '23. Supporting this outlook is continued price, productivity and benefits from restructuring efforts.

A few highlights. We expect Gas Power to remain strong with continued services growth and low-double-digit margins. Onshore will continue to improve significantly, achieving high-single-digit margins on roughly flat revenue from better mix, price and cost out. Offshore will continue to execute our current backlog with slight year-over-year improvement.

Finally, Grid will expand to mid-single-digit margins, primarily from higher volume and price. Our guidance assumes roughly $200 million of standalone and $100 million of other ongoing carve-out costs.

When converting from this year's expected operating profit margin for Power and Renewables, combined to adjusted EBITDA margin for GE Vernova, including these costs plus D&A, the difference is roughly $0.5 billion or 1.5 points.
On free cash flow. We expect $700 million to $1.1 billion from higher EBITDA and better working capital on a standalone basis, which includes absorbing our portion of the GE pension.

Given the multi-decade secular tailwinds and stronger financial trajectory ahead, we are excited to launch GE Vernova and partner with our customers to lead the energy transition forward.

With that, back to Larry.

H. Lawrence Culp  General Electric Company - Chairman & CEO

At GE Aerospace, we’re also excited about 2024. We expect another year of solid revenue growth, up at least low-double-digits, including mid-to-high-teens growth in Commercial, which includes high-teens growth in engines and mid-teens growth in Services; mid-to-high-single-digit growth for Defense & Systems, including our Propulsion and Additive Technologies business.

On our current reporting basis, the guidance implies $6.6 billion to $7.1 billion of operating profit, improving double-digits at the midpoint of the range. On a standalone basis, including roughly $600 million of Corporate and other standalone costs, this comes to approximately $6 billion to $6.5 billion of profit and implies flat margins year-over-year, given the growth in LEAP, initial 9X shipments for the 777X platform and other growth investments.

For free cash flow, we expect to generate over $5 billion, which remains well above 100% conversion, including standalone impacts. Our teams are looking forward to sharing additional insights in detail with you at our March Investor Days.

In closing, 2023 was an excellent year. GE Aerospace drove double-digit growth and GE Vernova delivered substantially better results. Both are on track for continued growth in 2024. While our sights are on the future, we’re proud of what we’ve accomplished with over $100 billion of debt reduction behind us and $7 billion returned to shareholders in 2023, we remain fully focused day in and day out on using lean to improve how we serve our customers and deliver value for shareholders.

Underpinning all of this is the GE team. My sincere thanks to all of you for the important work you did in 2023.

I’ve never been more confident in the path ahead. We’ve created industry leaders that will carry GE’s commitment to innovation and continuous improvement while grounded in vital missions. At GE Aerospace, inventing the future of flight and at GE Vernova, electrifying and decarbonizing the world. We’re ready to go.

Steve? Over to you.

Steven Eric Winoker  General Electric Company - VP of IR

Thanks, Larry. Before we open the line, Liz, I’d ask everyone in the queue to consider your fellow analysts and ask 1 question, so we can get to as many people as possible in the next 20 to 25 minutes. Please open the line.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Myles Walton with Wolfe Research.

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

I was hoping to dig in a little bit on the Commercial Engines’ high-teens growth. And maybe if you could break down a little bit, does it still include about 2,000 LEAP deliveries? And also, is the spares ratio similar to ‘23? I know you mentioned ‘23 was similar to ‘22.
H. Lawrence Culp  General Electric Company - Chairman & CEO

Myles, I think from a CES or Commercial Engines and Services perspective, we're going to see engines lead the way. Engines will be up high-teens plus. I think you're going to see Services in the mid-teens area.

Specific to your question, from a LEAP perspective, what we anticipate right now is a 20% to 25% increase in unit growth. I think we'll see installs get ahead of spares. So that spares ratio will begin to moderate more in line with the historic average of a typical life cycle. So that's really where we are with respect to the narrowbody specifics you have there.

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

Feels like the end of an era. Yes. As I just said feels like the end of an era. Way to go out on a good note. So my one question is for Scott. So Scott, I'm just trying to bridge the free cash flow comments, 2023 to 2024. Clearly, you guys have some numbers out on the slides but the 2023 numbers look like it's not apples-to-apples, right, like not burden for Corporate. It looks like you're expecting a pretty meaningful pickup in 2024. So maybe just talk to us about the puts and takes and what's embedded in the low and the high end of the guide for '24.

Scott L. Strazik  General Electric Company - Senior VP, President & CEO - GE Power & Renewable Energy and CEO of GE Vernova

Joe, at the start. I mean, we're proud of the $600 million of free cash flow that we generated with Power and Renewable segments in 2023.

Now as we get to an apples-and-apples basis, we need to back out from that reportable free cash flow of $600 million, our standalone and carve-out costs of approximately $300 million. In addition to pension and some variables, we're working through with taxes that will all be clear in the Form-10 filing in the middle of February.

Jumping off of that starting point, we expect to see real EBITDA growth that will drive free cash flow with it from low-single-digit EBITDA growth to the high-end of the mid-single-digit EBITDA range that we're talking about, in addition to working capital continuing to be a source of cash that drives us up towards that $700 million to $1.1 billion of positive free cash flow at Vernova.

Now, the real drivers of the variability in that range come down primarily to 2 things. One is Offshore Wind execution and how quickly we install the wind turbines in both the Atlantic and the North Sea, proud of the fact that we've got 14-megawatt wind turbines in both cases connected to the grid today. And really the EDF timing of the transaction close on Steam, as the 2 largest variables for us on that $700 million to $1.1 billion guide but with a lot of confidence that we go into '24 expecting to see substantial improvement off of 2023.

Operator

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

Kenneth George Herbert  RBC Capital Markets, Research Division - Analyst

Maybe, Larry, for the 2024 mid-teens Commercial Services outlook, can you provide any more granularity on the implied assumptions maybe for spare parts and price compared to other services? And then within that maybe some comments on how much improvement in the LEAP turnaround times are embedded in the guide?

H. Lawrence Culp  General Electric Company - Chairman & CEO

I think that what we're anticipating on the services side is, in effect, mid-single-digit departure growth really being the foundation. We will see, I think, internal shop visits grow more rapidly than we're likely to see spare parts. We're going to get pricing benefit. We're going to see work scope improvements. And that's really how you ladder up from that departures number to what we would expect to see in terms of mid-teens services growth. Rahul?
Rahul Ghai General Electric Company - Senior VP & CFO

Ken, just to add a couple of dot points to that response. As Larry said, departures are up 6%. We are entering 2024 with some catch-up to do on our shop visits.

Given the supply chain challenges in 2023, we could not get as many shop visits completed as we would have liked. So as we enter 2024, given the demand outlook, given the increase in traffic, we are expecting our shop visits to be up kind of low-double-digits to mid-teens. And adding to what Larry said on scope and pricing, that pushes our revenue from shop visits kind of towards the higher-end of their teens.

And then spares growth kind of moderates and the spares growth will be below that of the shop visit growth. But you combine all that, you get to that mid-teens services growth that we just mentioned.

Operator

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

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

Just a question maybe for Scott on the free cash flow again for Vernova. So I just wanted to try and understand, I think working capital is assumed as a source. So maybe help us understand kind of what the orders intake assumption is for Vernova this year. I think it was up 25%, the orders in 2023. So just trying to see how much sort of orders growth this year or what kind of working capital inflow from orders you're expecting?

And on that free cash flow point separately, there must be some assumption for sort of interest expense and so forth within that cash guide. So just any framing around that, please?

Rahul Ghai General Electric Company - Senior VP & CFO

Julian, let me just kick it off and let me start with the second part first and then I'll hand it to Scott on the orders. As you think about the free cash flow guide for Vernova, we'll definitely provide more details as Form-10 comes out and then we have the Investor Days.

But just keep in mind, as we've previously discussed, vast, vast majority of the GE debt will retain with GE Aerospace. So there's not a lot of interest impact on GE Vernova. So that's the way to think about the free cash flow for next year. More details to come on the capital structure. But Scott, do you want to take the orders part?

Scott L. Strazik General Electric Company - Senior VP, President & CEO - GE Power & Renewable Energy and CEO of GE Vernova

You bet, Rahul. And Julian, I think to your point, to begin with, we had a big SunZia order with Onshore Wind in the fourth quarter. Across Grid, there were a number of large HVDC orders with TenneT, as an example and you can expect in every year, in any quarter specifically that we're going to see those types of transactions. So those, we don't expect to see a repeat in '24 versus '23.

But with Onshore Wind, as an example, our largest Renewables business, we see our customers actively investing and replenishing their project book right now. I mean they really utilized all the projects they had prior to having clarity on the PTC. And we do think the orders profile in '24, much like the revenue and shipments profile will be more back-end loaded than first half loaded an Onshore Wind. But with very active individual projects, orders are going to be more flattish than up in onshore.

On Grid, the one point I'd make is, although we aren't going to expect as much in large HVDC orders to the extent we had with TenneT in 2023, the reality is, even if you back out the HVDC orders in Grid, our second largest Renewables business, our orders in Grid grew by over 20% in 2023. Power Transformers as an example, a business we don't talk about as much, grew orders by 40%. And we expect to continue to see that strength.

So there may be less headline orders of the magnitude of a SunZia or the TenneT HVDC projects but there's a lot of healthy demand across Renewables that we expect to continue into 2024 that contributes towards our free cash flow generation, continue to be greater than 100% and that significant free cash flow growth that we just talked about.
Our next question will come from the line of Sheila Kahyaoglu with Jefferies.

Sheila Karin Kahyaoglu Jefferies LLC, Research Division - Equity Analyst
Larry, this one's for you. Maybe if you could just offer your perspective on the quality lapses we've seen across the industry. How does it change your approach in regards to ensuring the integrity of your own supply chains as the industry grapples with the LEAP challenges, obviously but you also mentioned initial GE9X production in 2024. How does that flow into your assumptions on free cash flow for things like inventory build?

H. Lawrence Culp General Electric Company - Chairman & CEO
Sheila, there's a lot there. I think from a -- let's take safety first. I'm strongly of the view that the industry, not to speak for the industry but having been close to this business for almost 2 years, everybody understands the solemn responsibility we have the world over.

I think from a GE Aerospace perspective, as you and I have talked, the operating framework, the lean transformation that's been underway here is very much rooted in an SQDC approach, safety, first and foremost, before quality, before delivery, before cost. And we not only talk that way, we work hard to make sure we operate that way day in and day out.

Fortunately, at GE Aerospace, we have a long history of being hyper focused on safety. You go back, for example, to I think 2013, our safety management system was really the first of its kind. We were the first OEM to implement such a scheme well before the FAA required the industry to do so. And we have been building on that. But that approach never assumes perfection, right? So we layer in all sorts of checks and audits, process capabilities to make sure that we're doing all that we possibly can to deliver safety, to deliver quality over time. And that applies in the Commercial realm, it applies on the Defense side, legacy platforms, new platforms like LEAP and 9X.

And I'd also say that when we talk about our leadership behaviors of humility and transparency and focus, that really helps undergird all of that work because if we have an opportunity to improve, if we miss something, we want folks to come forward, share that with us so we can get after it, get to root cause and lay in corrective action. So that's really the general approach.

From a 9X perspective, we do know that, that will be a pressure on us in 2024. We're assuming EIS May of '25, will begin to ship engines in the back half of '24. It's really the beginning of the life cycle for that platform. We're thrilled to be underwing on the 777X. It's an exciting platform but it will be a financial headwind for us for the foreseeable future as we ramp not only the volumes but obviously improve the overall cost structure of that business with an eye toward building the installed base and the service annuities that will come over time.

Rahul Ghai General Electric Company - Senior VP & CFO
Sheila, just to add to that. On the free cash flow part of your question, we've -- 9X has been a headwind on free cash flow even in 2023, as we start bringing in inventory to start shipping this year, as Larry said, towards the back half of this year. So it will continue to impact our free cash flow negatively to some extent. But it's not a material driver overall, as you've seen greater than $5 billion of free cash flow for 2024, including absorption of the Corporate pension, the interest expense, so -- that you saw. So still feel pretty good about the free cash flow for 2024, and the 9X is not a material driver of the free cash flow for the year.

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

Andrew Burris Obin BofA Securities, Research Division - MD
Just one last time for me for GE. But yes, a question for Rahul. Maybe just if -- you gave us an overview for the company into the first quarter. But maybe just detail by business for GE into the first quarter, a little bit more color.
Rahul Ghai General Electric Company - Senior VP & CFO

Sure, Andrew. So if you look at the first quarter guide, Aerospace is going to start the year strong. Revenue up mid-teens with the Commercial growth rates in the first quarter, kind of in line with what we are projecting for full-year.

And the margins on a business as usual kind of pre all the standalone expenses, we do expect margins to be flat to slightly up for the first quarter on a year-over-year basis for Aerospace.

For Renewables, as Scott said, there will be profit improvement during the year but that improvement will be more back-end loaded. As we start converting the higher-margin Onshore Wind orders that Scott referenced in his prepared remarks, we'll start shipping those orders that we got in ’23 into the second half of 2024. So there’s a little bit of lag between order to revenue conversion.

And so the Renewables improvement will be more back-end loaded. The first quarter for Renewables will look a lot like the fourth quarter for Renewables. So think about roughly in the same zone.

And for Power, typical seasonality with low-single-digit growth, some margin expansion year-over-year in the first quarter.

But just one other point I want to make on the first quarter is that given that both Vernova and Aerospace team are fully staffed up to become standalone public companies and we are operating with a very, very small Corporate staff. And the historic corporate expense will now be fully absorbed in the 2 businesses. And the Corporate expense in first quarter will be effectively zero.

So majority of that expense is going to Aerospace and the balance to Vernova. But the way to think about first quarter margins for both companies is just as we think through after absorption of incremental cost and just given in line with the reported margin guidance that we provided for full year. So that’s the way to think about the first quarter margins.

Operator

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

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

I don't want to kind of -- you've just given us the 2024 guidance, so I apologize for jumping ahead here. But when we think about margin cadence in Aerospace, apples-to-apples kind of flattish as we go from ’23 to ’24. When you think about going to kind of the 20%-ish that you talked about for ’25, how do we think about the key drivers as we bridge that?

Rahul Ghai General Electric Company - Senior VP & CFO

Yes, Seth, so listen, let’s start with a really strong ’23, right? $1.3 billion of profit growth, 90 basis points of margin expansion and better than what we said back in March, right, when we were expecting $5.5 billion of profit, flat margins year-over-year. So 2023 shaped up a lot better than what we initially expected back in March.

Now as you look forward to ’24, I know you kind of skipped over that here but double-digit profit growth in 2024, with the OE ramp, 9X introduction pressuring the margin rate but it is exactly the steps that we had thought in our minds on how 2024 would look when we were sitting back in March, right? And we had said, hey, ’24 will be a step along the way to ’25.

Now as we get to ’25, the biggest driver to profit growth between ’24 to ’25 will be the benefit from top-line improvement and that is in-line with what we’ve previously said, pricing that offsets inflation and productivity. But mix will continue to be an issue. LEAP OE volume ramps, LEAP services ramps. And even though LEAP services becomes profitable in ’24, it’s still a margin headwind and then 9X volume ramps in ’25 as well.

So if you think about ’25, recall, we had said $7.5 billion, $7.6 billion to $8 billion of profit on the current GE reporting, which translates to
roughly about 20% margins. And layering in about $0.5 billion of standalone public company expenses, EH&S cost, all the other things, we are thinking $7.1 billion to $7.6 billion of profit for 2025, which is in line with what we said back in March, just adjusted for the incremental expenses. And we'll come back to that and talk more in March.

Operator

Our next question will come from the line of Andrew Kaplowitz with Citigroup.

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

Scott, maybe in terms of your 2024 margin expectations for Vernova, could you give us a little more color on the components? I think you mentioned Onshore can reach high-single-digits margins with the second half ramp up, which would I think be meaningfully better performance than your initial expectations you set for the business in '24, last year. So does that assume you get through most of your product reliability issues? And has price versus cost just been a bigger driver than you would have thought?

Scott L. Strazik
General Electric Company - Senior VP, President & CEO - GE Power & Renewable Energy and CEO of GE Vernova

Andy, you bet. I mean, if we go back to our original guide in '24, going back to March, I mean, we're largely in line with the expectations there. But if we take a step back, Gas Power is stronger than our expectations in March. Onshore Wind and Grid are both stronger. And to your point, we talked today about Onshore Wind being high-single-digit margins in '24 and Grid being mid-single-digit margins.

Now Gas has already gotten to low-double-digit margins and will continue to accrete but Offshore is tougher than where we were in March. And that's challenging a little bit of that strength in our 3 largest businesses with Gas, Grid and Onshore representing about 80% of our revenue today. But also taking into account that tough Offshore backlog, we've got 2 more years to execute through that.

So when you think about our 3 largest businesses continuing to be stronger than where we were, while we really reduce our Offshore backlog from $6 billion to approximately $4 billion and approximately 2 years to go, we see a clear pathway in '24 to accrete margin but also then to continue to accrete margin beyond as we liquidate the rest of the tough economics with Offshore in '25 and then find the oxygen to really share with you some of our smaller businesses we don't talk about as much.

But you heard Rahul mention earlier the fact that our Digital business returned to profitability and we're really excited about some of those areas like Grid Software that we'll share more with you when we get to March 6. So those really are the key dynamics of '23 to '24 and looking a little bit further out than even that.

Steven Eric Winoker
General Electric Company - VP of IR

Liz, we have time for one last question.

Operator

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

Scott Deuschle
Deutsche Bank AG, Research Division - Research Analyst

Rahul, you touched on a bit in your answer to Seth's question but can you give a bit more detail on the flat margins implied for GE Aerospace in '24?

And then for Larry, I was hoping you can give an update on your capital allocation priorities for '24, including how share repurchases fit in relative to debt paydown?

Rahul Ghai
General Electric Company - Senior VP & CFO

Yes. Sure, Scott. So as we look forward to 2024, I think it's going to be another strong year, right? We've guided to 6.5 -- $6.6 billion to $7.1 billion of profit on a current basis and then $6 billion to $6.5 billion on a standalone basis. This is after including EH&S, other public company expenses.

Including, about $100 million to support the wind down of GE Corporate office, which will now be with us kind of through second quarter.
So this implies about a $750 million of profit growth or low-double-digit at the midpoint of that growth.

Margins, we do expect that those margins to be flat, about 2 points of margin pressure that we're expecting. More than 1 point of that is coming from LEAP OE ramp, introduction of 9X engines and the strong LEAP services growth. And as I said to Seth earlier, even though LEAP services is turning profitable, just as we would have expected, it is still negatively impacting the margins.

And the rest of that 2 point headwind is coming from incremental R&D to support -- improve -- further improvement in LEAP durability, introduction of 9X and then develop the next generation of products for the future of flight.

This margin pressure is completely offset with benefit from volume, productivity, the strong services growth that we are expecting. So overall, again, it's a step that it is in line with our expectations that we had laid out for the medium-term outlook in March of '23. Larry?

H. Lawrence Culp  
General Electric Company - Chairman & CEO

Scott, I don't know if you asked that relative to my GE role or my Aerospace role, I suspect the latter. But just with the GE hat on for a moment, really no change at this point. We really want to make sure we see through the spin, as I think both Rahul and Scott talked at the outset, feeling very good about Vernova’s prospects here to be investment grade, confident in that outlook and we want to see that through, set out both businesses.

We will, in early March in New York, share more at each of the Investor Days as to how we're thinking about the -- not only the capital structures but the capital allocation strategies for both businesses.

I think in Aerospace, so you should assume that we're going to have a compelling dividend, that buybacks are going to be an important part of that overall effort beyond just covering dilution and we'll certainly look to do meaningful value-accretive M&A. The mix, the timing, those details to come. I really want the GE Aerospace Board to have more time with those important questions.

But we're looking forward to moving beyond deleveraging and playing more offense at Aerospace. And I think while Scott's got a different hand to play, they're going to look to continue to certainly invest inorganically in the opportunities that they have around the energy transition.

Steven Eric Winoker  
General Electric Company - VP of IR

Liz, before we wrap, I want to remind folks that GE Aerospace will report GE's first quarter results in late April, with GE Vernova holding a separate call. As a result, like we did with GE HealthCare, we'll focus our comments in late April on Aerospace leaving GE Vernova commentary to Scott and his team.

Larry, any final comments?

H. Lawrence Culp  
General Electric Company - Chairman & CEO

Steve, thanks. Just to close the call, again, the teams delivered in 2023, both Aerospace and Vernova. We're really looking forward to what’s ahead for both companies as independent entities. Before that day in early April, we hope to see many of you at the Investor Days in March. We appreciate your time today, your investment and support of GE.

Operator

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