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PRESENTATION

Operator

Good Day, ladies and gentlemen, and welcome to the General Electric Fourth Quarter 2022 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 and Full Year 2022 Earnings Call. I'm joined by Chairman and CEO, Larry Culp; and CFO, Carolina Dybeck-Happe.

Keep in mind that 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.

As a reminder, GE completed the separation of our HealthCare business this month. GE HealthCare will report separately on January 30. So while included in our 2022 results, we're focusing today's commentary primarily on GE Aerospace and GE Vernova, our portfolio of energy businesses. Our remarks will also be simpler and shorter today, reflecting the company we are now, and we'll move more quickly to Q&A.

I'll now hand the call over to Larry.

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

Steve, thank you, and good morning, everyone. 2022 marked the beginning of a new era for GE, following 4 years of strategic and operational transformation. We successfully separated GE HealthCare in a spin-off, distributing approximately 80% to GE shareholders on January 3. We strengthened our foundation, retiring an additional $11 billion of debt, bringing our total debt reduction over $100 billion since 2018. We continue to improve our operations, further embedding Lean and decentralization to better serve our customers. And today, excluding GE HealthCare Services -- which are both higher-margin and more resilient, represented an even larger part of our portfolio, about 60% of revenues and 85% of our backlog.

We finished the year strong, delivering revenue growth, margin expansion and better cash generation. GE Aerospace led the way as we executed on an unprecedented ramp. Within GE Vernova, Power delivered with continued stability at Gas, and we took significant actions to position Renewable Energy for future profitability.

External catalysts like U.S. climate legislation and the European focus on accelerating electrification are increasing investment in new decarbonization technologies. This progress has positioned us to create industry-leading, investment-grade, independent public companies.

Thanks to our team's high-quality work, our plans to launch GE Vernova and GE Aerospace are progressing well. We're filling key leadership positions for both, and we're preparing for 2 stand-alone businesses. We'll share more details with you, including our ongoing progress and time line for the planned GE Vernova spin, at our Investor Conference in March.

I could not be more proud of how the GE team managed through a challenging external environment to deliver for our customers and partners in 2022. My thanks to everyone.

And before I turn the call over to Carolina, a moment of reflection. Just 2 weeks ago, I, along with many of our leadership team, attended a memorial service for our exemplary GE Board member and former U.S. Secretary of Defense, Ash Carter. Ash was a remarkable leader, incredibly humble and clear-headed. We miss him and his sage counsel.

Now Carolina will take you through our results.

Carolina Dybeck Happe ***General Electric Company - Senior VP & CFO***

Thanks, Larry. Turning to Slide 3. I'll speak to the key drivers of our performance, I'll do it on an organic basis and including GE HealthCare.

In the fourth quarter, top line momentum continued as orders grew significantly across all segments. Revenue was up 11%, with services up 13%.

By segment. Revenue at Aerospace, Power and HealthCare was up double digits, driven by market demand, price realization and improving delivery. This was partially offset by Renewables largely due to lower volume resulting from U.S. PTC lapse and our heightened commercial selectivity. Adjusted margin expanded 290 basis points. Power was particularly robust, offsetting Renewables. Overall, our price and cost-out actions outpaced inflation.

Revenue and profit growth resulted in over 50% EPS growth. Free cash flow was $4.3 billion, primarily driven by strong earnings and improving working capital. All accounts were a source of cash except receivables, which, as expected, was a use from revenue growth.

Moving to the full year. Orders were up 7%, with 22% growth in Aerospace and 13% growth in Power. Total services orders were up 12%, supporting profitable growth in 2023. Revenue was up 6%, largely driven, again, by aerospace, up 23%. More broadly, higher-margin services were up double digits, while total equipment revenue decreased 4%.

Collectively, supply chain headwinds and macro pressures impacted our performance by about 4 points. Importantly, margins, EPS and free cash flow all significantly improved year-over-year and finished in line or above the most recent outlook we shared in October.

Adjusted margin expanded 160 basis points, led by Aerospace and Power. Robust services growth, pricing, plus almost $1.5 billion of cost-out actions drove improvement. This was partially offset by inflationary pressures especially at our shorter-cycle businesses and pressure from Renewables.

Operating profit growth and debt reduction drove EPS up more than 50% for the full year. Free cash flow was $4.8 billion, up over $2 billion or over 80% improvement, driven by earnings and reduced debt. In 2022, working capital was a source of cash as accounts payable, progress collections and contract assets all contributed to the solid performance.

Now a moment on corporate. In 2021, we ended the year with $1.2 billion of costs. We continued to reduce costs in 2022, including a few hundred million dollars of market-driven favorability. We now have a smaller, leaner cost structure. And in 2023, we expect costs of about $600 million or roughly half of the 2021 baseline. Free cash flow, we expect to improve significantly given our progress with debt reduction and lower costs.

We continue to execute our restructuring plans and reduce our cost structure post the HealthCare spin, setting up fit-for-purpose, stand-alone structures for GE Aerospace and GE Vernova. Stepping back, we're encouraged by our improved volume and pricing and our significant cost-out actions exiting the quarter. This will help us drive continued growth in 2023.

Now back to you, Larry, to discuss our businesses.

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

Carolina, thank you. Starting with Aerospace. I'm 6 months in leading this business, and my conviction is even higher today that we have a premier franchise with highly differentiated product and technology positions and leading positions in attractive commercial and military sectors.

Entering 2022, our priority was delivering on the significant growth across both engines and services, where stability and predictability are critically important for our customers. This starts with the right team. We have a balance of unparalleled experience and fresh perspective with nearly half our leaders new to their roles this year.

We're also driving 2 major operational changes. First is accelerating our progress with Lean to improve operating rigor and delivery. Take supply chain, where we've seen real improvements with more to come.

Our team in Terre Haute produces LEAP turbine center frames and started '22 with about 50 pieces delinquent. Working through multiple Kaizens, implementing flows, standard work and daily management, the team's Lean actions increased output over 20% and improved productivity by about 10%. And today, they are on schedule. With our 2023 demand, we'll need to continue to use Lean in this way to deliver for our customers.

The second is decentralization. For example, in our Commercial Engines business, we're increasingly running our product lines as their own P&Ls, in line with how our customers work with us. More cross-functional collaboration in real time closer to the customer helps make us better.

Turning to the quarter. Both orders and revenue were up over 20%. Equipment orders were robust, now with almost 10,000 LEAP engines in backlog. Commercial services and equipment revenue grew about 30%, and Military revenue was up about 20%, and services internal shop visits were up 25% and external part sales were up more than 20%. In equipment, commercial units were up nearly 30% with LEAP units up almost to 50%.

Looking sequentially, both internal shop visits and commercial units were about flat, but military units were up 10%. While material availability continues to be a challenge, our output across engines and services, we're using our Lean tools to help accelerate sequential improvement, a key for us this year.

Fourth quarter margins were above 18%, slightly better than we expected, although down year-over-year. Higher volume and price were more than offset by negative mix, driven by increased commercial equipment shipments, continued investment to support the business growth and other cost pressures. While still net price/cost positive, we expect inflation will continue to be challenging in 2023.

For the year, revenue was up 23%, driven by commercial sales with internal shop visits up over 20%. Profitability and cash were solid. Margins were 18.3%, up 440 basis points year-over-year. Services growth and positive price/cost more than offset the impact of increased investments and negative engine mix from higher LEAP deliveries. Free cash flow of $4.9 billion was driven by earnings and working capital. As we shared last quarter, total in-year AD&A flow came in close to 0 versus last year, $0.5 billion of pressure.

Looking ahead today, GE and CFM departures are close to 90% of '19 levels, and we expect to be back to '19 levels later this year. In '23, internal shop visits are expected to grow about 20% and external spare part sales are expected to increase. With Commercial Engines growing at about 20% and services at high teens to about 20%, plus Military growing at a high single-digit rate, we expect total Aerospace revenue to be in the mid-to-high teens. And we expect LEAP engine deliveries to grow about 50% in '23. We also expect to deliver profit of $5.3 billion to $5.7 billion and higher free cash flow. Aligned to current airframe or aircraft delivery schedules, AD&A is expected to be about $0.5 billion outflow in 2023.

We're laser-focused on supporting our air framers, airlines and lessors as they ramp post pandemic. Today, that means providing stability and predictability for our customers, keeping our current fleet flying and growing our new fleet, all the while continuing to invest in technologies that will define the future of flight.

Notably, we're encouraged by the momentum at Military with our next-generation technology, including the XA100 engine for the F-35. The XA100 offers cutting-edge capabilities needed to ensure continued U.S. air superiority. The Adaptive Engine Transition Program received a strong show of support recently from nearly 50 bipartisan members of Congress who wrote in support of continuing the program, which includes our engine, with $286 million of funding included in the 2023 Omnibus Appropriations Bill.

Overall, GE Aerospace is an exceptional franchise with a bright future as a stand-alone industry leader.

Turning to the GE Vernova portfolio. Power delivered a solid performance this year, and we're making real progress running a similar strategy at Renewables. While the demand drop due to the PTC lapse significantly impacted our Renewables results in 2022, the Inflation Reduction Act is a real game-changer for us and the industry going forward.

In fact, we began to see a rebound in demand this quarter with Renewables orders up 7%. Onshore orders in North America more than doubled, a very encouraging sign. But unlocking the full potential of the IRA will hinge on how quickly the administration moves through implementation.

Meanwhile, lower volumes and inflationary pressures continued to weigh on our performance. Fourth quarter revenue was down 13% due to Onshore, and margins contracted as inflation and lower volumes offset pricing and productivity gains. Full year free cash flow declined over $0.5 billion due to lower earnings.

So while we await clarity on the IRA rules, Scott and the team are controlling the controllable, taking action. And we saw progress in that regard this quarter.

Grid, a business that lost close to $400 million in 2021, was profitable for the first quarter since 2018, reflecting our restructuring and selectivity efforts. Orders also grew significantly.

At Onshore, we're executing a restructuring with our headcount decreasing almost 20% sequentially, which will deliver savings in 2023. Our strategic sourcing actions at Onshore and our focus on reducing product variants will improve product costs despite continued inflationary pressures.

Across the businesses, orders and sales pricing continue to improve with our selectivity strategy yielding a more profitable backlog and pipeline. Service orders and revenues, excluding repower, grew. There's certainly more work to do and the next 6 months will remain challenging, but we're acting with urgency. In 2023, we expect mid-single-digit growth, significantly better profit, and flat to improving free cash flow.

Taking it by the business. Onshore. We expect more than 50% orders growth in North America this year. And based on the orders we have in hand, we're confident of delivering over 2,000 units globally with North American volume more than doubling in the second half versus the first half of the year. We also expect a significant step-up in profit driven by lower warranty and related reserves, better price and restructuring benefits.

With this significant orders growth comes roughly $3 billion to $4 billion of cash down payments this year. This includes $0.5 billion of cash linked to large tech selects we've won which we expect to convert to orders later this year. These are strong customer commitments, but given the project size and complexity, timing could shift somewhat across quarters.

In Offshore, we expect to more than double revenue from about $0.5 billion in 2022. However, our margins on the first tranche of Haliade-X projects will be challenging between typical new product margins and inflation, resulting in rising losses. Associated with the delivery growth and limited down payments, we also expect cash will be significantly pressured in 2023 in Offshore, mostly a timing dynamic.

And at Grid, given our robust orders growth, we expect continued growth. The actions we've taken on price are expected to offset inflation pressures, and we continue to make progress, including our small -- our smaller cost structure and productivity. Taken together, this will enable Grid to deliver a modestly profitable year in 2023.

Overall, I'm confident we're seeing operating improvements throughout the year in Renewables. And key external catalysts, like the IRA, will help improve our longer-term economic profile here.

Moving to Power. We've significantly improved Power, which is demonstrated by our continued profit and cash growth. We're well positioned for continued services growth with our expanded HA fleet. To date, we've now shipped 110 HAs with roughly 80 units COD, providing a reliable source of cash growth in the future as our highest utilization assets in the fleet.

Looking at the quarter, Power demand remained robust, orders grew in all businesses and revenue was up double digits, largely driven by continued aeroderivative momentum at Gas Power. Services were also solid with orders and revenue up again driven by Gas transactional services. Margins expanded over 700 basis points driven by significant Gas volume, favorable price/cost and productivity gains. Similar to Aerospace, we expect inflation will remain challenging through 2023.

Moving to the full year, orders were up double digits. But importantly, we're not taking our eye off selectivity with disciplined underwriting. In line with our outlook, revenue was up low single digits, led by services. Margins expanded 300 basis points, enabling Power to achieve high single-digit margin for the year. And our free cash flow improved significantly across both Gas and Steam. At Gas, service billings were strong as fleet utilization grew low single digits.

Looking to 2023 for Power. We expect low single-digit revenue growth driven by Gas Power services. Equipment revenue will grow as we deliver more HAs despite the new build wind down at steam. And we anticipate profit improving slightly year-over-year. At Gas, both equipment and services volume as well as productivity gains and price should help offset rising inflation pressure. We expect lower free cash flow year-over-year. Continued earnings growth and strong services collections are offset by disbursements, but we expect free cash flow conversion to remain solid.

Stepping back. Our existing technologies in the GE Vernova portfolio will play an important role in the energy transition. It's the strategic imperative to electrify and decarbonize the world, is the challenge that these businesses with their vast installed bases were made to meet.

Let's turn now to the overall GE outlook for 2023. We're expecting organic revenue growth in the high single-digit range; $1.60 to $2 for adjusted EPS, which includes about $4.2 billion to $4.8 billion of adjusted profit; and a range of $3.4 billion to $4.2 billion for free cash flow.

Underpinning this outlook is a higher services concentration in our portfolio as well as our confidence in the strength of GE Aerospace as the worldwide commercial aviation industry, airlines and airframers alike, continues its post-pandemic recovery. We also anticipate Military revenue growth, thus yielding significant profit growth for GE Aerospace in '23.

For GE Vernova, we expect low to mid-single-digit growth and profit of negative $600 million to negative $200 million, including improvement at both businesses. On cash, we expect flat to slight improvement. This is driven largely by better profitability and planned down payments in Onshore, where timing could shift across quarters with some offset from Offshore increasing deliveries.

Across GE, we expect continued operational improvements to deliver higher earnings and improved working capital management. In turn, this will help us drive higher free cash flow for GE in '23.

We're looking forward to sharing more during our March 9 Investor Conference at GE Aerospace in Cincinnati, by then hopefully, home of the Super Bowl champion Bengals, where you'll hear more detail from our leadership teams about both GE Aerospace and GE Vernova. Please come see us.

To close on Slide 8, I hope you see what I see: Strong results, a simpler story and an exciting future.

At GE Aerospace, continuous improvement is our mantra, and our results reflect our team, our technology and our portfolio's unique positioning as the industry's largest and youngest fleet. At GE Vernova, Power is delivering solid earnings and cash, while we're setting up Renewables to drive longer-term profitable growth.

We're moving forward with our plans to launch 2 independent investment-grade industry leaders that are well positioned to create long-term growth as we shape the future of flight and lead the energy transition. And I'm confident that we'll unlock greater value for our customers and our shareholders in the year ahead.

Now we're ready for questions. Steve?

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

Thanks, Larry. (Operator Instructions) We ask that you please save any GE HealthCare questions until their earnings call next week. Liz, can you please open the line?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Joe Ritchie with Goldman Sachs.

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

Congrats on executing the spin.

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

Thanks, Joe. Thank you.

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

Yes. So my question is really going to be focused on this free cash flow bridge for 2023. And specifically on the segments, I'm curious. You talked about Aviation free cash flow being up versus '22. I know that you threw out the ($500 million) impact in AD&A, but did the rest of GE Aviation free cash flow grow consistently with earnings in 2023?

And then my kind of second question on the segments is just around Renewables. And what are you anticipating for the large payments in the second half of the year, and what impact that has to the free cash flow in 2023?

Carolina Dybeck Happe ***General Electric Company - Senior VP & CFO***

Okay, Joe. So a couple of questions. So let me start with the free cash flow guide for 2023 for the whole company. So if we look at our 2022 numbers that we just printed $4.8 billion. New jumping house point, excluding HealthCare, is $3.1 billion. So basically, we are assuming that, the midpoint of our guide, we will improve free cash flow with about $700 million.

And the majority of that comes from growing of profit. Midpoint is about $1.3 billion of improvement in ops profit. You add to that lower interest, a couple of hundred million of tailwinds and then some working capital improvement despite the high single-digit growth.

A couple of things that are partially offsetting that. The headwinds for AD&A that you mentioned, about ($0.5 billion). We have a restructuring cash out as well as higher cash tax since we made more money. So taking all together, we expect earnings to be the biggest driver of the improvement. We'll continue to benefit from our working capital management. And overall, that's what leads us to have confidence in our total free cash flow guide.

You also asked about the segments specifically, and on Aerospace. So if you look at Aerospace, clearly, the improvement in profit is a big driver in Aerospace improved free cash flow. When it comes to working capital, mind you, what Larry said about the really strong growth that we're expecting to see. So of course, working capital will be pressured, receivables and also partly inventory, from that kind of growth. But we do expect that the combination of profit growth, working capital management will more than offset the AD&A headwind of $0.5 billion. So we will improve cash also for Aerospace.

And then if you look at the Vernova businesses. As Larry said, we basically expect it to be flat to slightly improving on cash as well. And here, you have Power would be slightly down while we expect Renewables to improve.

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

Down payments, Joe, that you were asking about. I think we said in our formal remarks that, that should be in the $3 billion to $4 billion range. Some of those are for orders as they progress and orders to come, many of which we have been selected for. But again, the timing here, until the IRS finalizes the rules, the tax rules for developers, could have a little bit of movement, and that's what we were trying to flag in the formal remarks. So it will be back-loaded in that regard, but we'll have much greater linearity in Aerospace, as Carolina suggested.

Operator

Our next question comes from Josh Pokrzywinski with Morgan Stanley.

Joshua Charles Pokrzywinski ***Morgan Stanley, Research Division - Equity Analyst***

Larry, just wanted to follow up here on Renewables. It looks like there's some op profit improvement, not maybe all the way back to what folks were perhaps expecting. Just wondering if you could parse what's getting better, like selectivity or Grid or price/cost, versus what's still kind of a more material headwind this year?

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

No, I think if you look at Renewables, we think profitability will be significantly better. If I break it down. At Grid, we're really encouraged by the improvements the team has put in place. I think that's what yielded the profitable quarter here in the fourth, but more importantly, sets them up to be profitable in 2023, right? This is a business that people had given up on a few years ago. And particularly in Europe, we've seen tremendous interest really across the Grid portfolio in line with this accelerated electrification that's underway. So I think that's all good and they begin to contribute in the new year.

I think from an Onshore perspective, a little to Joe's question a moment ago on cash, the same thing applies to profitability. I think the first half is going to continue to be challenged much in the way that 2022 has. But as we work our way through the year, we would expect to see volume. We'll see higher-quality volume as a function of that selectivity. And we can really see better pricing in our order book compared to our revenues, in our tech selects compared to our orders and in our pipeline. We've talked about that before. I think that really is a sign that the industry is transitioning in anticipation of the IRA to one where volumes may be -- capacity may be challenged by demand, and that will be good overall.

But there's a whole host of things that we need to do operationally. I think we talked in the last call about improving our producibility and the robustness of what we do in manufacturing. At the same time, we have taken some structural cost actions, really the only place in GE where that's the case with nearly 2,000 of our associates in transition here as we look to get the Renewables business, Onshore in particular, in better shape for what lies ahead.

And then for Offshore. Because we aren't going to double revenue, we're going to need to recognize the losses that go with the Haliade-X early on here.

So Grid, much better. Onshore wind in transition. A bit of a timing dynamic with Offshore. And you put that together, and that's really what gives you the Renewables guide for '23.

Operator

Our next question comes from Julian Mitchell with Barclays.

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

Just wanted to ask about cash flow sort of through the year, and also the uses of your cash. That's something maybe refreshing to talk about for the first time in a few years.

But on the cash flow through the year, when we think about the seasonality, I think you had sort of free cash was minus $900 million first quarter a year ago. How do you see the sort of the cash flow moving this year? It sounds like Renewables may be a very big headwind in the first half and then swings in the second. So any color on the GE firm-wide free cash as we go through the year?

And then maybe more for Larry, sort of thoughts on capital deployment. There is starting to be some optionality now for GE partly because of the improving cash flow. It's mostly been debt reduction understandably for a few years. But maybe just help us understand your priorities on cash use.

Carolina Dybeck Happe ***General Electric Company - Senior VP & CFO***

Julian, let me take the first part of that question on seasonality and on how we see that happening through the year in 2023. Maybe let me just start with the first quarter. We are expecting an EPS of $0.10 to $0.15 in the first quarter, so actually better linearity than we've seen before in 2022.

On cash, we still expect cash to be negative also in the first quarter. The new jumping off point is a negative $1.2 billion. So we expect it to be significantly better than that, but still negative as is typical for our seasonality.

And seasonality, in general, I would say we don't expect material changes to our seasonality. We are still sort of heavy second half loaded, both on revenue and profit and on cash, actually even more back-end loaded now that we are excluding HealthCare.

So expect lower volume in the first half and ramping in the second half. Sort of Renewables sequentially growing through the year, sorry, and for Aerospace sequentially growing through the year. Renewables, significant sort of first half to second half ramp. And Power, more the typical outage seasonality, where you'd see sort of large 2Q and even larger 4Q, and we also have the equipment deliveries in the second half.

But I would finish by saying that improving operational linearity is a key priority for us, and clearly more to do.

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

Julian, I would say with respect to capital allocation, you're right. The boardroom conversations are fundamentally different than they were just a few years ago, right? We've now reduced our debt load by $100 billion. Really pleased with the way HealthCare has spun and has traded here. You can look at that effectively as a $30 billion dividend to shareholders.

So we have a lot of options. And I would say all options are on the table. However, job 1 remains: The completion of what we announced, the transformation back in November of '21, right? We want to make sure more than anything that we are setting up both Aerospace and Vernova in the way that we described them. So as we work through a number of, if you will, more tactical considerations, that overarching strategic objective will continue to be foremost in mind.

But no doubt about it, it's a different conversation and it's a much more enjoyable conversation to have than where we were back in '18 and '19.

Operator

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

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

Just a couple of questions, I think, on Vernova. First, I think there's a lot of sort of talk in the industry about -- on wind to structurally change the contract, right, because overall industry is just not in particularly good shape.

So question one, where are we in conversations with large customers who seem to want more capacity, yet sort of the contract terms are not really helping the industry make any money? Where are we in structurally renegotiating the contract structure?

And I had the second question just on Power overall, more traditional Power. But focus is on profit growth, not revenue growth. What are the key levers you will focus in '23? Guidance seems to suggest modest margin expansion. Are there any headwinds in Gas and services that you're facing in '23?

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

Andrew, I'll take the first part of that. Carolina perhaps can jump in on the second part. I would say that you see, I think, in the press, more discussion offshore than you do onshore relative to renegotiation, given that some of the PPAs that are in place in the wake of the inflation that has run over every part of our economy, makes those more challenging arrangements. We're just really starting in our Offshore business. So we see a little bit of that, but frankly, not a lot given our relatively small position.

I think the way you see those dynamics playing out for us, again, in the wake of the IRA in particular here in the U.S., is that customers really want what we refer to as workhorse products. I think the technical specmanship, the arms race, is a thing that is quickly -- a dynamic that's quickly fading here. And customers want to make sure that they know they can get units, onshore in particular, over the next several years that they can count on, both in terms of performance and delivery.

And I think that, in turn, is leading not to renegotiations. That's not the nature of the business. But as we look at new business, right, the reason we're seeing better pricing. I think that the industry is going to need to work through that so that there will be a new equilibrium. The carrots offered by the IRA are incredibly helpful in that regard, at least we anticipate that they will be once the IRS rules are finalized. And that, in turn, is why I think you'll see us step up in volume over the next several years and presumably convert these better as-sold price levels into real margins and real cash.

Carolina Dybeck Happe ***General Electric Company - Senior VP & CFO***

From the Power, I have to just start by saying, looking at where we landed the year and what the team delivered, $1.2 billion of profit and 7.5% of op margin, really getting to high single digits, that's quite an achievement. And building on that for 2023, for Power, we have a couple of positives.

We have more CSA outages. We talked about '22 being a low CSA outage year, '23 will be higher CSA outage year, so that's good. We also have aeroderivatives growing. But we do expect to have a tough mix equation with equipment deliveries as well as inflation.

So price/cost for Power, having had a big price impact in 2022, when you lap that in 2023, being pressured by the inflation coming through in the P&L being such a long-cycle business. So overall, we expect earnings growth; and on the cash side, also strong services collections; but offset by distribution. So down slightly on the cash side, but still a very high cash conversion number.

Operator

Our next question comes from Nigel Coe with Wolfe Research.

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

Can you hear me?

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

We can. Go ahead, Nigel.

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

Just went -- my line just went dead there. First of all, thanks for all the details. We've covered a lot of ground so far. I did want to go back to the Offshore losses and cash outflow in '23. Just wondering, how do you see that curve developing? I don't know if you want to quantify it in '23 in terms of the headwinds it's facing. But how do you see that progressing in '24 to '25? And maybe just given the magnitude of the losses in '23 for Renewables in total, are we still confident in the bridge back to '24 profit?

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

Nigel, I don't know if we got all of that. Let me speak to the Offshore dynamic. I think what we're going to see in '23 is pressure. We talked a little bit earlier about the doubling of revenue, the dynamics with the Haliade-X being new and how that rev rec will lead to op profit pressure.

From a cash dynamic, we'll also see disbursements as those projects move forward. We should see some milestone payments, some of which will be back-end loaded as well, and they too have a little bit of timing variability around them. We need to execute in order to see that in '23 as opposed to '24.

But as we look forward, I think what we've gotten from customers is a lot of good feedback relative to where we go next with the evolution of the Haliade-X. And that's where our product teams and our engineering teams are focused. I think the timing of when we see the next tranche of orders is such that it's going to be potentially more a '24 than a late '23 dynamic. And that, too, will create some of that pressure that is not atypical for a business that is effectively in startup mode.

I wish it were otherwise, but again, I think given what we're seeing in grid and what we should see in onshore, once we have clarity with the IRA, that will help buffet us in many respects. But when you look at Vernova overall, for that free cash flat to slightly improving guide, that's really what we're referring to.

I think with respect to (inaudible), really no change in expectation, right? Again, if we get the volume that I think everyone anticipates coming here in the North American market, our best market, where we're seeing healthier pricing, coupled with better execution from a manufacturing, from a cost perspective; Grid being profitable; and Onshore -- or Offshore rather, coming along, we should do that in '24. We need to do that next year.

Carolina Dybeck Happe ***General Electric Company - Senior VP & CFO***

And when you see that cash -- that profit will then turn into cash, and then also the timing that we've talked about on working capital with the progress down payments, and more of that happening in 2024.

Operator

Our next question comes from Jeff Sprague with Vertical Research Partners.

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

Just sort of a multi-parter for me, if I could, I'm sorry. But just first on Renewables. I just do want to confirm that the free cash flow guide includes the expectation of this $3 billion to $4 billion of payments. But my larger question is really how we think about normal conversion going forward. Kind of the implied free cash flow conversion on the guide here today for '23 is 180%, 190%, 200% or so relative to net income, right? So how do we expect that to normalize over time?

And maybe you could provide just a little bit more color on that bridge from net income to free cash flow. Carolina, you started walking us through the delta a little bit, but still just kind of that absolute difference between the 2 would be interesting to bridge.

Carolina Dybeck Happe ***General Electric Company - Senior VP & CFO***

Sure, Jeff. So to start with, you are right. As Larry mentioned earlier this morning, in our guide for Renewables, we are expecting the $3 billion to $4 billion of payments in the free cash flow.

When we talk about free cash flow conversion, and you know me, always talk about cash, but it's important to see where it comes from. So broadly speaking, we do expect to operate at more than 100% free cash flow conversion for the next few years. And why is that? A couple of different parts.

First part, depreciation and amortization being higher than CapEx. And then I'll talk more about the working capital opportunities and timing as well. But with the depreciation and amortization, an important distinction. We expect depreciation to be largely in line with the CapEx to basically continue to invest. It's really the amortization that makes the difference. And now that we are excluding HealthCare, it's about $600 million of difference, and we would expect that to continue for years.

And on working capital, I would say there are a couple of different parts here. We do continue to see opportunities in improving our working capital management, especially after the year with the pressure that we've seen on the supply chain. So we see opportunities both to improve DSO and inventory turns, so on receivables and inventory. But also when we look at progress and contract assets, we expect both to be sources given where we are in the cycle.

Finally on AD&A. It's not working capital, but it's also a driver. And this year, we're expecting negative $0.5 billion of flow. And we've had a couple of years with positive flow from AD&A. So for the next couple of years, you can expect that to be pressured. But over time, we would also see that normalizing.

So overall, we do see opportunity to continue to improve, and we'll continue to work that. But for now, we're focused on growing earnings.

Operator

Our next question comes from the line of Chris Snyder with UBS.

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

I wanted to turn the conversation over to the Aerospace business, and specifically margins. And I understand the general flat-lining of margins in 2023, given the mix towards equipment. But I guess my question is, how long should we expect these mix headwinds to persist? Should we model margins higher coming out of 2023? And is there anything keeping the segment from returning to the 21% level achieved in 2018, 2019?

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

Well, we're delighted to talk about Aerospace, so let me jump in. We had a very strong finish as you saw, margins up to nearly 19%. But Chris, as you know, this LEAP dynamic, and frankly, mix overall, will be a pressure for us in '23. I think as we look at margins next year -- rather this year, we would expect they would be flat, but the revenue growth will give us an opportunity to drive profit growth up, call it, 15%.

I'd call out 2 things in '23. One, we do expect new units to grow more rapidly than services, that's a headwind in and of itself. And then the LEAP dynamic, both within services and within new units, will create the mix pressure that I suspect will remind folks about it through the course of the year.

That said, I don't think we look at 18% as some sort of ceiling that we cannot pierce. We continue to have, I think, a lot of optimism about the LEAP program and the opportunity to improve margins both with new units and in the aftermarket as we go forward. Program is still very much a young one.

I think at the same time, we know price/cost hasn't been as challenging, but it has been challenging at Aerospace. We'll do a better job, I'm sure, as we go forward. And our Lean efforts, I think very much, is in its infancy. You'll see that both in the P&L and I think in the cash flow statement.

So I don't think this is necessarily a '23 and done dynamic. That said, our expectations would be, as we go forward, all in to continue to drive top line growth, profit dollar growth and margin expansion at Aerospace.

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

Liz, we have time for one more question.

Operator

Our next question comes from Deane Dray with RBC.

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

First is a follow-up to Jeff's free cash flow question. Larry, when you joined GE, you talked about an initiative to kind of smooth out the free cash flow cadence for the year, trying to avoid that historical hockey stick. And look, there's still some seasonal impacts you can't get away from, like scheduled outages, that will impact the fourth quarter. But has there been progress? Is that still something that's an initiative here in terms of smoothing out free cash flow? And then I had a follow-up macro question.

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

Deane, I would say that there has been progress, there's still a lot more to do. And we talk about it, when you hear us use the word linearity, right, it gets back to Lean 101. We just want to make every hour of every day count, every day of every week, every week of every month. And there's still a bit of a dynamic, some of this is us, some of this is our customers, where we migrate toward quarter end, we migrate toward year-end.

So I'm encouraged by the progress, and I think more people today understand how we can be more linear. If you look at just the reviews we've had the first 3 weeks of this year at Aerospace, right? We're looking at how we have started this year, how we've started this month vis-a-vis December, vis-a-vis January a year ago. Those are the sort of operating cadences which really help us in that regard. So pleased, but we're not done.

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

Appreciate that. And then just given the uncertain macro, can you cite any changes, any meaningful changes in demand indicators that you're looking at, whether it's quote activity, front log, anything that you could share here this morning?

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

Well, we're looking at just about everything that we can. Obviously, in Aerospace, we're watching not only departures, bookings and everything that can precede that. The only thing that we have seen, and this isn't a proprietary view, Deane, is obviously, freight has softened here as the short-cycle economy has done the same.

I think with respect to Vernova, we look at utilization in Gas and when we can see what's happening in real time. Even in Europe, we've been encouraged, I think, by the utilization of the gas fleet. That said, we don't want to suggest that we're immune. With 60% of revenue now in services tied to those real-time dynamics, we're watching carefully, but we wouldn't be guiding a high single-digit top line number this year if we weren't confident that our positioning both with the aerospace recovery and the energy transition sets us up to do well here in '23.

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

Larry, any final comments?

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

Steve, we've covered a lot of ground here this morning. I would just wrap up with the group, saying that 2023 really, I think, was a historic year -- or '22 rather, was a historic year for us. We finished very strongly. The --planned spins are advancing. We couldn't be, I think, more thrilled with how things have played out for HealthCare. But more importantly, we're excited about what lies ahead.

Certainly appreciate everybody taking the time today to join us, your interest in our company and your investment in GE. And again, we hope to see many of you in March in Cincinnati.

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

Thank you. Thanks, everybody.

Operator

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