

QUESTIONS AND ANSWERS

Michael Lapidès *GE Vernova - VP of IR*

Hi. Welcome back for our second Q&A session. We have Scott, we have Ken who just wrapped up, Philippe, and Scott Reese.

(Operator Instructions)

Michael Lapidès *GE Vernova - VP of IR*

With that, we have someone in the very far back right over there. Thank you.

Robert Cameron Wertheimer *Melius Research LLC - Founding Partner, Director of Research & Research Analyst*

Rob Wertheimer, Melius Research. Questions for Scott Reese. Could you just give a bit of a description of the ecosystem of software in grid and electrification stage of development? Are there natural spots where an OS means it ought to be kind of a unit solution, not a monopoly, but you know what I mean, like a primary core? Are there dozens or hundreds of different software entities within the ecosystem?

Scott Reese *GE Vernova - CEO of Electrification Software*

Yes. So we really love the notion of grid orchestration because to us, it explains the evolution of what really needs to happen in the grid. We've had good assets from a software perspective for decades, and they've played critical roles in helping utilities operate the grid. We're taking those assets, and there are many of them, and leveraging the best of the technologies, moving them to the cloud that will ultimately make up this grid orchestration platform that we've launched.

We're also doing some M&A around it to accelerate things. Recently, you saw in August of last year, we acquired a company called Greenbird technologies. That's because that was a massive accelerant to a key part of grid orchestration, which is bringing the data together from all elements of a utility, giving the utilities for the first time visibility across the grid. So there'll be a lot of different parts that come together as we build it out. I don't know if that got to the heart of the question.

Scott L. Strazik *GE Vernova - CEO*

It's really the uniqueness of software for us because the reality is when you look at our market map and our competitive landscape, in a lot of Vernova, you have 1 or 2 big competitors. And inside software, what we've learned, my 2 years, having the Digital business inside GE, we had many applications that were somewhat duplicative. In some cases, we had let this thing get too big and wide. We prioritized. But then in the same vein, when we look at the market at large, there's an immense number of technologies that customers are evaluating. They don't talk to each other.

And that's where, for us, grid orchestration of bringing this thing together is uniquely positioning us to

serve the market. And Scott mentioned Greenbird, there was another small acquisition we did which is Opus One, which is a DERMS software. These are small deals. They don't make the headline of The Wall Street Journal and are not going to. They're really technologies we're acquiring more than businesses, but then we bolt on to GridOS and use our customer reach in a way that we can accelerate how those technologies serve the market much more efficiently than these technologies can on their own. And that's a big, exciting part of what Grid Software is for us.

Michael Lapidès *GE Vernova - VP of IR*

Next question. We'll go to Mark Strouse.

Mark Wesley Strouse *JPMorgan Chase & Co, Research Division - Alternative Energy and Applied & Emerging Technologies Analyst*

So dating back to the Form 10 filing, I've got a lot of positive feedback from investors on the way that you're breaking out the Electrification segment now. I think folks are trying to get a grasp of kind of what that business can look like over time. You look at some of the electrification peers that are out there publicly traded, the EBITDA margins that they might have, let's say, high teens, low 20s. Do you think that that's possible for your business maybe within this kind of by 2028 framework? And can you talk about kind of the tailwinds and headwinds to kind of get something like that?

Scott L. Strazik *GE Vernova - CEO*

Philippe, do you want to start with that?

Philippe Piron *GE Vernova - CEO of Electrification Systems*

Well, first of all, we went from a business which was not really profitable to something which, in 2023, managed to reach the high end on low single-digit. Our guidance is mid-single-digit. But I'm very confident about the fundamentals of the business to go further and to go really rapidly further.

After -- the universe of electrification players could be a little bit different, depending on the level of automation robotics you've got compared to the grid, particularly, that could change a little bit as well as the multiple. Here, we are still in a business where we have this Power-to-X, but still the grid, which is quite dominant.

Typically, we have 2 or 3 players in front of us, where we definitely take the challenge to overtake them in terms of profitability level. That will be a challenge, but it's possible.

Scott L. Strazik *GE Vernova - CEO*

You look at the market map that Philippe framed up and the \$75 billion addressable market to \$175 billion is the biggest single market growth factor we see inside Vernova in this period of time, okay? They are also the businesses that have been the most orphaned in some way, to be honest with you, inside GE company, whether that be some of the assets we acquired from Alstom, and they remained very European-centric. I would tell you, when I took on the Grid businesses 2 years ago and visited customers of ours that have intimate relationships with and talked about what we had in Grid, they didn't know. It

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just is just fundamental to our improvement.

Our Digital business was out in San Ramon, doing its own thing. This business is fully aligned with our purpose every day now to electrify and decarbonize the world and that focus is driving real improvement. So I would tell you from my lens, the art of the possible for what can come over this decade with Electrification has the widest upside case, but it's early. And we want to walk before we run, but I like our chances.

Michael Lapidés *GE Vernova - VP of IR*

Got it. Next question right here in the front, please.

Marc Gregory Bianchi *TD Cowen, Research Division - MD & Senior Energy Analyst*

Marc Bianchi with TD Cowen. Ken, I've got a question for you on the net contract liability. It's approximately \$6 billion, \$7 billion, mostly in the Wind business. How much of that is a function of this \$4 billion of backlog for Offshore? And where should we see that liability go over time? And how much does the cash balance kind of depend on that?

Ken Parks *GE Vernova - CFO*

So it won't -- there is a portion of it related to Offshore Wind. It is not all related to Offshore Wind. What I would tell you is that it will move around a little bit over time. I think if you look back, I know we've just shown you kind of 3 years in the Form 10, that number does move around some. But I would expect that to kind of continue as we're growing the business to be a measurable cash balance that's sitting there. It's hard to project at any point in time, but it will be a part of the working capital portfolio.

Michael Lapidés *GE Vernova - VP of IR*

Got it. Next question. Let's go back to Joe Ritchie, please.

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

Scott, you touched on both of my questions actually to some degree, but I want you to elaborate on your right to win in the U.S. because historically, especially in the Electrification side, you have been predominantly Europe-centric. And maybe you've already started to see some of those wins and the backlog growing. Your doubling last year. So any comments around that would be helpful.

And then to the other, Scott, or maybe you can answer this question as well, as you're thinking about the Software business scaling, and the context that you're giving us mid-single-digit EBITDA margins, it just seems like if you're able to scale this business to \$1 billion, that should be super margin accretive to the Electrification business as well.

Scott L. Strazik *GE Vernova - CEO*

No question. So it's early in the U.S. broadly for Electrification, okay? The areas where we're gaining more traction more quickly is in Grid Software. Scott's ability to gain leverage with the larger utility customers that are really starting to shift from work they would historically depend on their organic

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teams to do and now coming to us and saying, "It's becoming too complicated", real opportunity. With Philippe, parts of the business that are really moving is the modernization of the aging infrastructure, think transformers, think switch gears. But that's basic grid enhancements much more than, as an example, the HVDC growth as an example that we're seeing in Europe contributed to a lot of his backlog growth, very European-centric. TenneT, National Grid he mentioned. There hasn't been a deal of that magnitude in the U.S. yet, it's to come.

It's going to have to because for us to get to what the U.S. needs, whether it be onshore HVDC projects or offshore, there's a healthy pipeline, but there's not quite as high a conviction case in the U.S. for that to move at the pace that we've seen stuff move in Europe, somewhat driven by Ukraine and the energy security initiative.

So for me, where we are in the U.S. broadly across both of their businesses, it is early, but this is our home field. These are where we have our most intimate customer relationships. And the practical reality in many cases is our greatest home field with some of our greatest customers never fully appreciated how we could serve them. It's the most authentic example of how Vernova as a purpose-built company gains leverage across the businesses together. It's early with a lot to follow.

Philippe Piron *GE Vernova - CEO of Electrification Systems*

If I may add some points. We are probably having a deficit of recognition, but we have some strong position in the U.S. as well on the Grid Solution we have. We take 2 examples, Grid Automation. We're #2 and #2 worldwide and quite strong as well in the U.S. market. Transformers through our participation, because we're in joint venture Prolec GE, we are #1 in the U.S., but it is not totally known. We are going - it's part of the strategy to push aggressively or break through on the U.S. market by pushing commercially in terms of footprint in order to really gain and rebalance the center of gravity that will be less European, but European and North America.

Scott L. Strazik *GE Vernova - CEO*

Yes. Very well. Scott, anything?

Scott Reese *GE Vernova - CEO of Electrification Software*

Yes, on the point around profitability, without any question, that's one of the things we all love about software is the profitability that it brings along with it. Getting -- we've worked really hard over the last 2 years to get back to basics, focus in on energy, deliver standardized software and earn a profit. We're there. That's the start line, not the finish line, right?

So we are going to continue to drive both growth and profitability. And ultimately, one of the things that you all have educated me on over the last 2 decades is this Rule of 40. That's really what we're in pursuit of, to make sure that our growth and our profitability, when you add them together, is over 40%. And there will be some balance between growth and profitability between those 2. But without any question, we're just getting started.

Michael Lapidès GE Vernova - VP of IR

And he deserves a little -- his team deserves a little bit of a congrats because of the -- one of the major consulting firms designated your DERMS software as the best in the market. So I don't know if that's filtered its way out, but it's a public document there. Congrats.

Next question, Stephen. Stephen in the second row up here in the blue jacket.

Stephen Calder Byrd Morgan Stanley, Research Division - MD and Head of North American Research for the Power & Utilities and Clean Energy

Stephen Byrd, Morgan Stanley. I just want to say thank you for a great presentation today. AI has come up a lot in -- throughout the course of the morning. What use cases are you most excited about that can, in the long term, really drive the bottom line? There are so many different applications at GE Vernova, I'm trying to think about sort of what are the biggest areas of upside.

Scott L. Strazik GE Vernova - CEO

I'm going to start, and then I may hand it to you, Scott, if I can. But at the start, again, part of it's just the power gen demand that's coming. Philippe has scope within data centers generally with the electrification of things. You've got to think about the huge installed base we have in power generation at large and how do we service that installed base with another level of sophistication on a go-forward basis, including using AI.

And then there's many use cases on Grid Software and where we're going, that I'd love to hand to Scott.

Scott Reese GE Vernova - CEO of Electrification Software

Yes, I'll give you just a pedestrian one and then we'll get a little bit more complicated. But when our hurricane's come in, we tend to have a snapshot of the vegetation around a utilities grid. We're able to leverage AI to recognize the foliage and therefore, we can determine the growth rate and be able to tell them, "Hey, here are a few places that we think you should probably get out in the next 2.5 days before the hurricane hits and trim the vegetation to prevent an outage." Because what happens is the tree gets overgrown, the wind blows, knocks down the tree, it takes the line with it.

So in the last hurricane, Hurricane Ida I think it was, we were able to contact the local utility and say, "Here are 19 places that our AI says, "You might want to get somebody out there to trim them." And we prevented 19 outages as a result of that. So that's a reasonably pedestrian example, but it's a real impactful example.

Beyond that, just being able to predict and see all of the demand and availability elements that utilities are just having to navigate today and being able to better educate them and ultimately just orchestrate that on their behalf, AI plays a massive role in being able to do that.

But it all starts with data. If you don't have the data in a way that you can see across the entire landscape, AI doesn't stand a chance. That's why we did the Greenbird acquisition. We expedited, we

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just launched it last week at DISTRIBUTECH down in Orlando, The GridOS Data Fabric. It's the first of its kind, enabling utilities to see across the entire grid at once.

Scott L. Strazik *GE Vernova - CEO*

And, Stephen, just 1 last comparison point to this. I've grown up in the Gas business the last 10 years. And we're looking at upgrades of the fleet, where we're trying to drive slight efficiency improvements in gas turbines that we can then quantify the OpEx savings for our customers. But it's hard. I mean the material sciences of what we're doing is tough for that extra dollar. And for me, what I've learned in the last 2 years of having these Electrification businesses is the OpEx that our customers spend on things like forests, like the lines and the transmission and dealing with that is massive. And frankly, it's easier often to take on savings there than it is the next efficiency upgrade with gas. And it's what gives me so much confidence that there's a lot that we can do to serve our customers in this space.

Michael Lapidès *GE Vernova - VP of IR*

Go to the next question. There's someone in the back right over here.

Jack Hurley *Mizuho - Equity Analyst*

Jack Hurley with Mizuho. You talked about how 2024 pricing and margins are mostly locked in, in existing contracts. I'm wondering if you could tell me how you think about margins locked in for '25, '26 and where we could possibly see some surprise there.

Ken Parks *GE Vernova - CFO*

Yes. So at the overall level, what we've said is that about 80% of our revenue in 2024 is locked in through current backlog. That number is about 50% in 2025. And as we move through this year, obviously, we would expect that to move back up. But it kind of runs in those levels.

Scott L. Strazik *GE Vernova - CEO*

But when you think about the profit of our services, which is even more of the backlog, right? 2/3 services, 1/3 equipment, and that's more profitable. Then if we have visibility to half of our revenue already for next year, it means even a larger proportion of our profit is already secured in that high-margin services backlog.

Michael Lapidès *GE Vernova - VP of IR*

Got it. Next questions. Cliff, we'll come back to you.

Clifford F. Ransom *Ransom Research, Inc. - Founder & President*

Cliff Ransom, Ransom Research. The history of GE is a history of innovation. But in the past, the organization, I won't say often, but frequently enough to make us skeptical, never quite got around to commercializing it or making it profitable. As you look at innovation today, how has this lean culture that you're building impacted what you go after? And why wouldn't that be a perfect application for Hoshin Kanri? For that matter, why have I not heard that -- those words or policy deployment even once today.

Scott L. Strazik *GE Vernova - CEO*

Well, Cliff, you have. We just have been more using it in the vein of when I talk about protecting first space and oxygen of the teams for the breakthroughs, that's what we're talking to. We haven't used the Hoshin descriptor. But at the end of the day, the way we're running the company today is with a lean operating model with a focus on the critical customer KPIs, but then also with a disciplined approach on Hoshin within the policy framework for the long-term breakthroughs.

And for me, this is probably the most powerful part of our operating model today that I would tell you is a real gift I feel like we've received as a company from Larry over the last 5 years. Ambition has never been our challenge inside GE to be abundantly clear. The challenge has been focus and to complement a distinction between the near-term improvements we must make for our customers while protecting for those long-term breakthroughs and not smothering them before they can come to be. And our business teams are getting better at that. Gas Power's farthest along, but there's a long way to go. And that counterbalance between near-term improvements and what the customers care most about, while having the discipline to then break that and find a different room, a different audience, and a different leadership style to nurture the long-term breakthroughs in the vein of Hoshin, that's where the magic really comes from. And that's what we're developing, but it's early inside GE Vernova and there's a lot to follow.

Michael Lapidés *GE Vernova - VP of IR*

Next question, please. Right up here, row 5.

Vladimir Benjamin Bystricky *Citigroup Inc. Exchange Research - Research Analyst*

Vlad Bystricky from Citigroup. A lot of focus on innovation, obviously, and there was talk around SMRs, which obviously still very early days on SMRs. But I wanted to ask you, as you think about developing and growing the SMR business over time, how do you think about the risk of big cost headwinds or overruns on some of the early projects and how -- what you can do to avoid some of the expensive lessons that you're experiencing in Offshore Wind?

Scott L. Strazik *GE Vernova - CEO*

Appreciate the question. And this is a big part of Mavi's role every day and what she's leading. But if I speak for her in a moment -- for a moment on this, I would just reinforce that we're also launching the first projects, in which our customers that we're delivering those projects, are our partners. They're investing in the NPI with us. So this is very much a codeveloped solution. And that's not just in the engineering and the technology, but it's also in the risk sharing on how we're launching this product.

So we like very much the commercial structure in which our launch customers in multiple countries in the world are our partners simultaneously. That probability weights our chance of keeping this on the highway in the middle of the highway substantially.

Now we're not building multiple variants of this. We are building one small modular reactor going back to the workhorse mentality for the world. That is going to drive us down the learning curve. And that's

the only way we're building this product. It's what the world needs across our portfolio is our ability to industrialize things at scale, and that's what we stand for as a company with SMR, but really in the same way for Wind and many other parts of the portfolio. Thank you.

Michael Lapidés GE Vernova - VP of IR

Got it. Next question, over here.

Deepa Venkateswaran Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

Deepa Venkateswaran from Bernstein. I'm quite surprised that we haven't discussed the Inflation Reduction Act or the risks. So particularly for the Onshore Wind business in the U.S., could you talk about what you see as the risks in case there's a change in administration and they do manage or what your odds are of maybe repealing the IRA? And what is your -- I guess, your fallback plan in case there's any risk to the IRA.

Scott L. Strazik GE Vernova - CEO

You bet. And I'll hit on it. I mean I don't think, by no means, we're trying to predict elections around here, but I can tell you that we're actively engaging with both sides of the aisle in the U.S. A lot of the dialogue in those conversations come back to this: jobs, innovation, U.S. competitiveness, energy security. And those generally are agreed upon by both sides of the aisle.

You look at what we're doing in Pensacola, Florida right now, where we've invested \$50 million to expand the capacity of our nacelle facility in Pensacola, hiring a number of Navy veterans to ramp up our Onshore Wind business from the naval base nearby, we get support across the aisle for that. And there are a lot of investments in that vein across wind that are supported by most.

So those priorities are really what we're positioned in the company to serve, irrespective of administration, irrespective of policy that we believe is foundational to onshore wind becoming the technology that generates 25% of the world's electricity, and not 7%.

What you see in our financials today, though, to be clear, is we've showed you a fairly flat revenue profile for Wind. So we're driving to a much more profitable business with better underwriting, a better mix because of that and substantial cost out. The real upside case with Wind is when we get that volume leverage over the medium, long term from things like the IRA that's not really baked in the near-term financials that we've framed up today.

Michael Lapidés GE Vernova - VP of IR

With that, we have time for one last question. We have one far in the back. Sorry, can't see behind the beam here.

Mustafa Okur Bloomberg Intelligence - Research Analyst

I'll try to talk around the pillar. Mustafa Okur from Bloomberg Intelligence. I just wanted to ask about your software strategy. GridOS, a very interesting video with Alabama Power and the savings. Do you

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have like a hardware-agnostic approach for your software? Does the software work better with GE hardware? Is it all of the above? Could you give us some color around that, please?

Scott Reese *GE Vernova - CEO of Electrification Software*

Yes, our customers' environments are very much a heterogeneous environment. So we work with all hardware providers. One of the things you have to love about Vernova, bringing these 12 businesses together as one company, though, is that we do have the ability to integrate in ways that really advantage the customer in a lot of ways.

So Philippe and my team partner very, very closely on the things that matter the most for the customers. Similarly to Mavi's business, our software monitors over 3,000 of the gas turbines that we have in production in real time. So we're able to continuously improve how our hardware and software interoperate and help one another, be better for the customer. But we are hardware agnostic with our software solutions.
